now! available for the first time at a popular price!

LANCER CONTEMPORA BOOKS

LANCER BOOKS 36106-175 $1.75

UNITED STATES OF AMERICA

all about STOCKS

from the author of the bestselling
Happiness Is A Stock That Doubles In A Year

IRA U. COBLEIGH

The basic guide for everyone who wants to find the professionals' secret to a fortune through stocks

Originally published
in hard cover by
Weybright
and Talley

WHAT THE CRITICS SAY ABOUT IRA U. COBLEIGH...

"...in detail the requirements for successful speculation."—*Saturday Review*

"...an admirable lack of hedging..."—*Harper*

"...provides a great deal of background information for the amateur as well as considerable research material for the professional...his forty years' experience...in the investment business is apparent throughout."—*Saturday Review*

WHAT THIS FAMOUS INVESTMENT ADVISOR HAS LEARNED IN A LIFETIME OF STOCK MARKET DEALINGS CAN NOW BE PUT TO WORK FOR YOU!

Where there is no vision, the people perish.
PROVERBS 29:18

all about STOCKS

A Guide to Profitable Investing in the '70's

IRA U. COBLEIGH

LANCER BOOKS NEW YORK

A LANCER CONTEMPORA BOOK

ALL ABOUT STOCKS

Copyright © 1970 by Ira U. Cobleigh
All rights reserved
Printed in the U.S.A.
This Lancer edition is published by arrangement with Weybright and Talley. Its large sale in the high-priced hardcover edition makes possible this inexpensive reprint.

LANCER BOOKS, INC. • 1560 BROADWAY
NEW YORK, N.Y. 10036

Author's Note

THERE are dozens of companies and securities mentioned, referred to, or briefly described in this book. Information respecting them was taken from sources considered reliable but in no way guaranteed. Moreover, the data concerning any individual issue was necessarily prepared some months ago, and consequently is outdated. Accordingly, if the reader is interested in any of the securities mentioned for possible purchase, sale, or retention, it is essential that he or she acquire the latest and most authoritative information about it before making any investment decision. This information should be secured from the company or a responsible broker, dealer, investment adviser, financial publication, or service. In no event is any recommendation or endorsement of any security made or implied; and nothing herein is to be considered under any circumstance as an offer or inducement to buy, sell, or hold any security at any time.

IRA U. COBLEIGH

Contents

	Introduction	xi
I.	The Corporation and Its Securities	1
II.	Bonds and Their Usefulness	8
III.	Growth Stocks	14
IV.	Convertible Securities	20
V.	The Wonderful World of Warrants	28
VI.	Listed Markets	37
VII.	The Panoramic Over-the-Counter Market	45
VIII.	New Issues	54
IX.	Money Stocks	66
X.	Transportation Stocks	79
XI.	Service Industries	86
XII.	Utilities	95
XIII.	Metal Companies	104
XIV.	Pollution Control	110
XV.	Leisure Time	117
XVI.	Franchising Companies	126
XVII.	Computers and Information Processing	131
XVIII.	Real Estate Stocks	136
XIX.	Petroleum Investment	147

XX. Comment on Assorted Industries 152

XXI. Letting Someone Else Make the Investment Decisions or Invest for You 159

XXII. Changing Patterns of Investment and Guidelines for the 1970's 166

XXIII. Selection of Securities and Portfolio Building for the Long-Term Investor 175

XXIV. Avid Speculators 183

XXV. Big Gainers and Losers in 1969 and a Tabulation of Fifty Promising Stocks for the 1970's 197

XXVI. Afterthoughts 218

Appendix 221

Glossary 221

Common Wall Street Abbreviations 231

The Thirty Stocks Comprising the Dow-Jones Industrial Average 232

Suggested Reading 233

Index 235

Introduction

ALL ABOUT STOCKS was written to meet an obvious investment need—to provide, in a single book, the essential background of knowledge one needs to launch and manage a successful personal investment program. Equally, ALL ABOUT STOCKS provides a mine of information and many useful guidelines for gains for more sophisticated and experienced investors. Of unique value are such chapters as "Changing Patterns of Investment" and the tabulation of fifty lively stocks with gainful potentials for the 1970's.

This book covers in some detail the growth and attractiveness of new industries, and the techniques by which bold individuals may become early share owners in rewarding enterprises through subscription to new issues.

The over-the-counter market, the supermarket for securities, is fully described, with its breadth, diversification, and opportunities outlined, as well as its dangers and pitfalls for the unwary.

Stock speculation is never a one-way street, as the table of losers in 1969 indicates. Stock can "blow up" as well as go up, and no one should enter the market without being prepared to accept with aplomb jolts, sell-offs, and losses.

Over the long run, putting your money in common stocks can be both zestful and profitable, eliminate boredom, and increase your wealth. The Dow-Jones Average stocks since

1926 have generated annual average increases of over 8½ per cent (including dividends and market gains, but excluding taxes). A well-shepherded stock portfolio can enhance your net worth, expand your income, assure comfortable retirement, offset inflation, and with luck, may also make you a killing ($50,000) or a fortune ($250,000)—if you're informed, patient, lucky, and your timing is right. This book should help.

Remember, the greatest roadblocks to your success in stocks are cupidity and stupidity! Good luck, and may all your stocks be Avons and Xeroxes!

ALL ABOUT STOCKS

A Guide to Profitable Investing in the '70's

CHAPTER I

The Corporation and Its Securities

THE safe deposit boxes of millions of investors and the financial pages of metropolitan newspapers would be virtually empty if there had not been created, centuries ago, a remarkable, intangible being called a corporation. Corporations are the creators of securities and responsible for the issue of billions in stocks and bonds that make up the individual and institutional portfolios of America. Accordingly, a working knowledge of corporations would appear essential for all those who would become informed and successful investors or speculators.

Purpose

Why were corporations created? Primarily to assure continuance of a business beyond the lifetime of a single proprietor, or members of a partnership; and to make transfer of business ownership more convenient and flexible. A corporation is in fact an organization legally empowered to conduct its operations under (usually) a state charter, with three major features: (1) unlimited life, (2) limited liability, and (3) negotiable certificates permitting ready transfer of ownership and management. These certificates are customarily called shares because they represent actual shares in the corporate assets and liabilities, earnings or losses. Theoretically, a corporation can live forever and have, if authorized, an infinite number of shares and share owners.

Another powerful reason for the existence of the corporation is its unique capability for gathering together and pooling far greater sums of capital than could be readily assembled by any single individual or a partnership. Thus the corporation is uniquely designed to finance large-scale enterprises such as insurance companies, electric power companies, steel mills, and manufacturing plants. The earliest major corporations were canal and railway companies, financial institutions, water and gas utilities.

The corporation is, moreover, the cornerstone of the free-enterprise system responsible for those huge accumulations of invested capital that have fueled the free world's incredible output of goods and services; and it has created untold wealth and income for tens of millions of individuals and for our great financial and endowed institutions and for pension, welfare, and trust funds.

The earliest corporation in America had an interesting name: Gentlemen Adventurers Trading into Hudson's Bay. It was chartered in 1670 by King Charles II of England and, among other things, was supposed to search for the "Northwest Passage to India." The company did look for the passage, but along the way, it got into the business of fur trading in Canada and became a vast land-holding, merchandising, and shipping company. The name was later changed to Hudson's Bay Company, and its shares are today traded in Montreal and London. This company was the trailblazer and the forerunner of such later enterprises as Canadian Pacific Company, Penn Central Company, Chase Manhattan Bank, United States Steel, American Telephone and Telegraph, Singer Manufacturing, General Motors, and many more.

Corporate Securities

To raise money needed for various corporate purposes, a variety of different kinds of securities have been dreamed up

by lawyers, corporation executives, and investment bankers. Each type of security was designed either to raise additional capital, to refund, extend, or convert indebtedness, to implement a corporate merger or acquisition, or to reorganize a capital structure. The great majority of all corporate securities, however, have been issued to provide funds for companies to go and grow on; and they have been tailored with a view to offering either (1) what investors would most eagerly subscribe to, under then prevailing market conditions, or (2) the financial vehicles that might supply the needed funds at the lowest costs and with minimum dilution of the stockholders' equity.

In reviewing briefly the many varieties of corporate securities issued and available for possible addition to your own portfolio, you might keep in mind that the indispensable one is capital or common stock. Every corporation must issue this as its first security (1) to qualify for its charter, (2) to provide a method for electing directors (by nomination and vote of common stockholders), (3) to divide the ownership into transferable units or shares, and (4) to give those who acquire common stock for cash, assets delivered, or services rendered, their proportionate share in the risks in the business, in profits (if any) earned, and in assets in event of sale or liquidation. Common stock, the basic security, is most sensitive to the varying fortunes of a business, and tends to increase in value as and if earnings grow, surplus is created, and dividends are declared. It also tends to wane and decline in value if earnings are nonexistent, or declining; and it may become totally worthless if the company cannot meet its obligations and is placed in bankruptcy, dissolution, or liquidation. If the company prospers, stockholders may enjoy great gains and even become millionaires, as did early purchasers of IBM, Xerox, Avon Products, Kentucky Fried Chicken, Occidental Petroleum, Litton Industries, and others. Stockholders can also go broke by buying shares in companies that never "make it." Hundreds of motorcar companies were

organized between 1910 and 1925—Velie, Moon, Jackson, Stutz, Pierce Arrow, and so on. (Where are they now?) Three out of five of all new corporations will not be alive on their fifth birthday.

Billions of Shares

There is no accurate count on the number of shares of common stock in existence. That would include all issues in privately held companies as well as those publicly owned and enjoying trading market. As of April 1, 1969, however, there were approximately 1½ million corporations in the United States and there were over 14 billion shares of stock listed on the New York Exchange alone (including both common and preferred issues).

Preferred Stock

After issuance of common stock, a corporation may decide to raise funds by selling preferred stock. This is a sort of hybrid security, entitled to dividends before any are paid to common stockholders, but customarily limited to a specific rate (5, 6, 7, or 8 per cent on a stated par value), or so many dollars per share ($5, $6, $7, or $8)—usually but not necessarily even numbers. Preferred is also customarily given voting rights (generally one vote per share) and has claim on corporate assets in the event of sale or dissolution, prior to that of common stock.

Preferred stock is usually (but not always) assigned a specific par value, such as $10, $50, or $100; it may be called in for redemption, often at a premium price. Usually, too, dividends at the stated rate are cumulative; that is, if not paid in any year, they may accumulate and be paid in a later year, when earnings and the financial condition of the company permit. In such event, all past-due preferred dividends

must be paid in full before common stockholders can receive any dividends. Also, some preferred stocks may be convertible into common stock at specified prices and under certain conditions. Occasionally (most commonly in public utility financing) there may be a series of preferred stock issues. Sometimes, too, there may be preferred stocks of different rank: first preferred, second preferred, and so on.

Corporate Obligations

While the first securities sold to finance a company are invariably common stocks (plus, occasionally, preferred stock), companies as they grow need capital at a faster rate than may be generated by retention and reinvestment of earnings, plus depreciation and depletion allowances. To get these funds, essential for working capital and expansion, companies often borrow money in addition to selling stock. The individuals or agencies that lend this money become creditors of the corporation, entitled to the full payment of the money loans at a specified future date, and to regular payment of interest at an agreed rate meanwhile. Creditors have, however, no share in any profits earned by the company, and their loans may be endangered if the company does not operate profitably.

Varieties of Loans

These loans to corporations take a variety of forms. They may be (1) short-term (due within a year) as in the case of notes, money borrowed from banks or finance companies, or (2) long-term (for many years) as in the case of bonds sold, either privately or by public offerings through investment bankers. Bonds may be the unsecured variety, called debentures, or may be secured by the pledge or mortgage of specific corporate assets. Most railway bonds, for example, represent a mortgage on terminals, trackage, and real property

owned. Bonds are purchased by individuals and institutions primarily interested in dependable income and safety of principal. Common stocks, on the other hand, are sought and bought by those willing to assume risks of shrinkage or total loss of their stake in the hope of rewarding capital gains and cash or stock dividends generated by rising earning power.

Bonds (and, similarly, preferred stocks) are fixed-income securities especially attractive in times of recession or depression by virtue of the protection of principal and continuity of income they assure. They are less desirable under inflationary conditions, because while income remains constant, the cost of living increases and each dollar of income buys less and less as prices rise.

Warrants

Finally, there's one more financial vehicle used, on occasion, by corporations to raise money. This is the warrant—a hybrid and definitely the will-'o-the-wisp of finance. It has no claim on assets or share in dividends; it has no voting rights. It can gain in value by thousands of per cent, or become swiftly worthless. A warrant is a certificate entitling the holder to buy a share or shares, or fractional shares of common stock directly from a corporation at a specified price and for a certain period of time. The warrant must be "exercised" (the related stock must be purchased) on or before the terminal date of the warrant, or it will become valueless. Most warrants run from three to five years (although there are a few perpetual ones). Some may be called in (redeemed at a preset price) before their terminal dates. Warrants are usually sold by corporations in an offering along with another security (as common stock and warrants in a unit) or attached to a bond. Sometimes, too, warrants are issued in reorganization to compensate sunburnt stockholders who otherwise might be "wiped out."

All of these securities by which corporations are financed

will be fully outlined in later chapters. Our purpose here is to familiarize investors with the different kinds of available securities, so that when they enter the marketplace they know what they're buying and have some basis for judgment as to the relative advantages or desirability of stocks, bonds, or warrants in attaining their own personal investment or speculative goals. We believe that to be successful in securities you should be informed. The "market" is no place for dum-dums!

CHAPTER II

Bonds and Their Usefulness

THE phenomenon of individual investing has actually been in a dynamic upward progression, beginning back in the 1920's and zooming forward at an accelerated rate since the end of the Korean War. Between 1917 and 1919 millions of Americans became security buyers for the first time, as they were exhorted to subscribe to "Liberty Loan" bonds paying between 4 and 4¼ per cent. Having gotten their feet wet as investors in war bonds, they had a further exposure to bonds, when in 1920–1921 a postwar mini-depression pushed interest rates up to alluring levels. For example, in 1921, Goodyear Tire and Rubber Company publicly offered its 8 per cent debentures at 95 to yield well over 8 per cent, and imagine this—these bonds were callable by lot through a sinking fund at 120.

Bond Popularity

Tens of thousands of citizens who had placed their surplus funds in war bonds took a look at these Goodyear bonds and many other high yielders, plus Standard Oil of New Jersey 7 per cent preferred stock. Many decided to liquidate their lower-yielding "governments" and to improve their incomes by acquiring these exciting and rewarding marketable corporate securities. Having been propagandized and educated by the wartime "Liberty Loan" drive, they naturally gravitated

to bonds, which they understood; the great majority of these "nouveau" investors were not yet ready to move into common stocks, which were still regarded as dangerous risks. Only a minority were so bold and sporting as to buy, in those days, United States Steel, Eastman Kodak, General Motors, Radio Corporation, and American Gas and Electric common stock. The volatile trading markets in these and other representative equities scared away the conservative and the timid; and "carefully taught" bond buyers opted for high-yielding bonds providing (presumably) safety of principal and dependable and secure fixed-interest returns, to the uncharted risks and unpredictable dividends of common stocks.

Thus it was that, particularly between 1921 and 1928, the average individual with money was a bond buyer; and the bond salesman became as important and significant to solvent middle-class folks as the mutual fund salesman is today. Not only were bonds regarded as the proper investment medium for prudent people with surplus funds, but the whole concept of bond investment was, in that era, a hallowed one. The urgent need for new capital funds for railroads and dozens of burgeoning industrial and utility companies, yoked with the energy and sales genius of the major investment banking firms of the day (J. P. Morgan, Kuhn Loeb, Blyth, Lee Higginson, Halsey Stuart, Dillon Read, Harris Forbes, The National City Company, Chase Securities Corporation, Blair & Company, Kidder Peabody, Pynchon & Company, Goldman Sachs, Speyer & Company) made bonds the "in" thing. Even in 1929, there were no more than a million stockholders in America.

Further endorsement of the primacy of bond investment was found in the attitudes and the investment policies of leading financial and endowment institutions. There existed, in those pre-Depression days, a "legal list," an extensive roster of senior bond issues (mostly "rails," but increasingly including mortgage bonds of electric, gas, and telephone utilities) which qualified as "legal investments for savings banks and

trust funds" in states that were then the leading habitats of entrenched wealth—corporate, trustee, institutional, and individual—New York, Massachusetts, and Connecticut. If a bond "qualified" as a "legal investment" in those states, it acquired instant acceptance and sold almost automatically at a premium over other issues, of possibly comparable quality, which failed to meet the traditional and quite arbitrary standards of the "legal" list. Moreover, the list, while presenting a grouping of presumably top-quality obligations, affording virtual certainty of semiannual interest payments, turned out a few years later to have sheltered some vulnerable issues.

By mid-1933 dozens of "legal" railroad mortgage bonds, including such respected lines as New York, New Haven, and Hartford, first on refunding 4's, and Central Railroad of New Jersey mortgage 5's, stopped interest payments. Bonds in general ceased to command the respect of the myriads of individuals who had been "conned" into regarding them as certain providers of "safety of principal and certainty of income." Also, by mid-1933 bonds covering one-third of all United States railroad mileage were in default; so were over 50 per cent of all real estate mortgage issues, hundreds of industrial mortgage and debentures and even municipal issues, and probably 80 per cent of all holding company debentures.

It was years after 1932–1933 before individual investors generally would look a bond in the eye again. They were still hurting from bitter Depression experiences; and in the emergent years, 1934–1939, there was in effect a national policy of maintaining low interest rates to stimulate employment and economic recovery, so that then and for three decades to follow (excluding World War II, when again it became patriotic, urgent, and convenient for individuals to buy government bonds), yields remained too low to attract individuals. In 1947 prime corporation bond yields reached a low for the century of below 3 per cent, and only institutions and endowments were in the market for them. Stocks had meanwhile gained

increasing acceptance, stimulated by the remarkable market gains created, after the war, in such equities as Sears Roebuck, seasoned railroads, Eastman Kodak, American Home Products, McGraw-Hill, Connecticut General Life, IBM, and by the substantial increases, year after year, in cash (and stock) dividends paid by the great and growing oil, chemical, industrial, and utility companies.

Along the way, there were some resolute individuals, albeit a minority, who had enough courage and foresight to pick up industrial and railroad bonds in default at fire-sale prices. If they held onto these, they either paid up back interest or, in reorganization, were replaced by new securities worth several hundred per cent more than 1934 prices. But these buyers then were not really bond buyers—they were avid and even inspired speculators!

The 1968 Bond Boom

Beginning in 1968, however, a new era dawned for bonds and bond buyers. The inflation caused by an overheated economy, onto which was piled at thirty-billion-dollar-a-year war, created fantastic demands for money. So intense and insistent were these demands that corporations seeking to expand plants or to build inventories; government subdivisions going ahead with new schools, roads, and hospitals; and millions of individuals buying motor cars, appliances, apparel, homes, leisure goods, and common stocks—all these together drove interest rates to their highest points in a century.

In August, 1969, the prime bank loan rate advanced to 8½ per cent; home mortgage rates soared to 8 per cent, Southwestern Bell 8¼'s due at 2,005 were offered at 101.274; and in September, Tenneco, Inc. 9 per cent debentures were priced to yield 8.95 per cent! Once again, as in the early 1920's, the investor was offered bond yields which far outstripped savings-bank or government thrift-bond interest rates, and which also

rewarded him well in contrast to dividend rates averaging about 3.30 per cent on blue-chip common stocks. Moreover, many of the new issues provided protection against the bonds being called in within five years, so that investors could confidently look forward to maintenance of incomes at these high levels. As a result, several hundred thousands of persons, eyeing the high coupon rates, and disgruntled, if not anguished, by the 160-point Dow-Jones (DJIA) decline in the summer of 1969, switched substantial portions of their funds into bonds. They sought to nail down principal values against market erosion, and to assure themselves of yields far higher than top-quality stocks provided. There was, of course, always the risk that continued inflation might erode the benefits of high interest income, and that the stock market might resurge, producing capital gains that might far outdistance the 4½ per cent gap between prevailing bond interest and stock yields. Against that, there was a genuine prospect that interest rates, driven to incredible altitudes by demand factors, and by the restraining policies of the Federal Reserve Board, might decline and thus stimulate a sharp run up in bond prices.

Our purpose in the foregoing was not to dissertate at length on the wide swings in interest rates within the last two generations, but to set a background for evaluation and consideration of bonds as desirable components, under certain circumstances, of balanced security portfolios. It does not appear that dependable bond yields of between 7½ and 8½ per cent are sufficiently attractive to offset the fifty-year historic growth rate of a list of seasoned common stocks (about 8½ per cent annually compounded) for younger persons more in quest of enhanced net worth than dividend income. However, for older, married people in their fifties and up, with retirement not far away, the inclusion of up to 25 per cent in portfolio of high-grade ("A" rated or better) bonds has much to recommend it. Some gains in market values of bonds might ensue if rates prevailing in the autumn of 1969 were to head downward;

but we feel rather confident that we are in a period where money will remain scarce, perhaps into the 1970's. In such event, oldsters might well be considering such issues as the following.

Company	Maturity	Rate
Duke Power	1999	8
Ohio Edison	1999	8¼
Pennsylvania Bell	2009	8
Continental Oil	1999	7½
NCR	1994	7.70
Reynolds Tobacco	1994	8⅛
Weyerhaeuser	1994	7.65

These are all great companies, and it would be difficult to imagine conditions under which their bonds might default. If the object is safe fixed-dollar investment, and attractive living income, then such issues have genuine appeal—particularly so long as they may be acquired to yield above 7½ per cent. And of course there will probably be a lot of new issues coming along, of comparable quality and worth, for your consideration.

In a book called ALL ABOUT STOCKS, perhaps we shouldn't have spent so much time on bonds; but even the most avid stock speculator may find it useful to salt away some of his winnings in fixed-dollar securities, and to provide an annuity-like return, in the event that he gets unlucky or badly hurt in his common stock operations.

CHAPTER III

Growth Stocks

WHILE lecturing to a senior citizens club in Florida a few years ago, my topic was "Growth Stocks." It was not a very brilliant selection for a topic, because most of the people in the audience were seventy-plus! However, the engagement went off well enough, and attention was excellent. At the end of the lecture, however, during the question period, one old gaffer arose to say: "I certainly enjoyed your talk about stocks, but I've gotta tell you this: At my age of eighty-one, I'm too old for two things: two-pants suits and growth stocks!" He had a point, because, of course, successful investment in growth stock is importantly a function of time; and racking up an exciting capital gain in growth stock usually involves a flowering period of three to five years.

For persons in early adult life, and during the middle years, growth stocks should be given a high priority, because of their capability for rapid enhancement of net worth. Growth issues, moreover, are consistently the most talked-about stocks in Wall Street, and at cocktail and dinner parties; and they're the ones which, because of their market activity and trading volume, and volatile price swings, grab the lion's share of financial headlines.

The Attributes of Growth Stocks

For many years it has been traditional for investment analysts to classify stocks into major groups: rails, utilities, industrials, chemicals, merchandising, bank and insurance, computer, and technology. That's quite proper, and we believe that, in general, stocks should be considered in categories with others of the same distinguishing investment characteristics. But when we consider growth stocks, we really have to go beyond industrial classification, because each "performing" virtuoso is a law into itself. How can you bracket Polaroid, Xerox, IBM, or Syntex with any other issue or group?

Since true growth stocks are indeed such virtuosi, and have so spectacularly rewarded their early buyers, what special qualities do they display? How can you pick out a growth stock from a general list of acceptable equities? In our view, a desirable growth company should have at least eight of the ten following characteristics.

1. It should be located in an industry growing at least twice as fast as the economy as a whole. (In 1969, qualifying fields included electronic data processing, leisure-related goods, land development companies, motel chains, pollution control, fast food franchising.

2. It should be growing faster than most other companies in its field.

3. It should possess some prepotent skill or competence: tight cost controls and uniformity of product, in roadside restaurants; unique marketing techniques, in discount merchandising; scientific brilliance, in a technology company; a battery of star salesmen, in a life insurance institution; and so forth.

4. Its sales should double within a five-year period, and its net profits increase at a rate better than 15 per cent annually compounded.

5. It should have a relatively small capitalization (at least in early phase), and management group should own upward of 30 per cent of outstanding shares. Management "with a stake" will work to make the stock go up.

6. It should have an energetic, young (average age: below fifty), and imaginative management team, with built-in marketing capability.

7. Its stock should have strong market sponsorship of a good firm or group, to generate the enthusiastic investor following that can make a stock zoom.

8. It should pay little or no dividends, retaining and reinvesting earnings for accelerated expansion.

9. Its stock will probably sell at a high price/earnings (P/E) multiple, and should increase in market price at a faster annual rate than net earnings.

10. It should be a frequent innovator of new products or services, and have adequate capital or sources of capital for expansion and research. (Broke companies have nothing to grow on, and a tough time raising money).

Even with these attributes, a company, particularly a young one, may gain altitude slowly. It may take trial and error to set the company on its most profitable course. Its early success may attract strong competition and reduce profit margins. Death, illness, or temperament may result in the loss of key men, or a sharp recession may inhibit rapid sales gains. Company earnings may pause or slow down, because of costs of research or introduction of new products. In general, many new issues are important growth companies, but original subscription to newcomers must be carefully researched, because so many of them are destined to flop. Our studies in this field suggest that you will do well to wait until a company's sales have reached at least $1 million (preferably $2 million) before taking aggressive action on its stock. At that level of business volume the company would seem assured of survival

and likely to have legitimate prospects for above-average success.

Equally, even when companies have displayed magnificent forward motion, increasing their sales and net by 30 per cent or more annually, rate of growth is almost certain to slack off when sales reach $100 million a year. It's difficult and much slower for a company at that plateau to double its sales, whereas a company with only $5 million in annual sales can often do so in a year or two.

No one has a monopoly on unearthing a growth stock. You have virtually as good a chance as an investment analyst, who is often so engrossed in the industries and companies he's studying that he doesn't have time to look around for newcomers. Moreover, the very numbers in the investment business restrict the knowledge in depth, even of the experts, to a few dozen companies, out of over ten thousand issues of public companies traded with some frequency.

So keep your eyes open and use your common sense. It didn't take great brains five years ago to see that fried chicken and hamburger heavens might dissuade millions of housewives from home cooking. Had you followed that lead and bought Kentucky Fried Chicken common in April, 1967, at $15 a share, you would have had, by stock splits, marketable securities worth about $300 in mid-1969.

Equally, it was fairly obvious that the expanding leisure and travel urge of Americans would build great demand for travel trailers and motor homes. Only $12.50 invested in 1964 in Winnebago Industries common (leading maker of motor homes) would have grown to over $2,000 in mid-1969! Early investors in Holiday Inns, Ramada, and TraveLodge all made fortunes.

Oil drilling programs, financing themselves by getting tax money from the high bracketeers, were a phenomenon of the 1960's, and because they staked their progress from rather easily acquired money and got substantial interests in oil pro-

duction without a large investment of their own, they zoomed. Clinton Oil from $1 in January, 1967, to $30 in June, 1969. White Shield rose from $1 in 1967 to around $60 in 1969.

Important, too, in your quest for growth securities is your appreciation and acceptance of the new. Some of the great fortune-building stocks of today were practically nonexistent ten years ago: Occidental Petroleum, Lum's (fast-service restaurants), Winnebago Industries, Equity Funding, Royal Inns, Prudential Drilling, McDonald's, and others. Only investors looking for newcomers would have picked these up.

In the 1970 decade we may expect great new advances in prefabricated housing; pollution control; cassettes (versus disk records); banking-insurance investment, credit, and home mortgage, all available at one institution; health-building and age-lengthening pharmaceuticals; more instant foods; new breakthroughs in education, publishing; maybe cigarettes that build with vitamins and proteins, rather than destroy with nicotine; and a myriad of new pastimes and gadgets for ever-expanding leisure, with 26 million golfers, 18 million tennis players, and 50 million owners of common stock!

Companies in the growth category that should continue to qualify are American Medical Enterprises, with a chain of acute-care hospitals; Aqua-Chem, in water purification; Automatic Data Processing; Barton's Candy; General Cinema (motion picture theaters and concessions to go with them, located in shopping centers); Martin Brower (disposable packaging); Jostens; Ramada Inns; Sarex (cassettes); Michael Baker (engineering); Motor Clubs of America (insurance and rehabilitation centers); Solon Industries (coin-operated laundry chain); Florida East Coast, Great Southwest, General Development, and Deltona Corp. in land and realty development; Applied Logic and American Regitel in computers.

The above were selected at random, and all are offered without any recommendation or endorsement, but merely as examples or illustrations of companies that might reward their

share owners well as they enhance their corporate stature. Remember, in all your considerations of growth equities—the name of the game is earnings! Stock prices are indeed the slaves of earning power. If you own shares in a company that increases its net 20 per cent or better annually, you'll have a growth stock, and you'll have a winner—if you buy it early and at a modest P/E multiple. There are a few stocks that have soared upward in the market on sheer glamour or sponsorship: Golden Cycle rose from $10 to $110 in 1967; Permeator Corporation went from $5 to past $55, in 1964–1966, although it has yet to show a net profit; and Recognition Equipment showed losses year after year—yet the stock traded above $100! These are the exceptions.

One quite predictable road to market success is to buy a good growth stock and hang onto it. Anyone who bought in 1960, and retained, American Home Products, Heublein, Inc., Coca-Cola, Famous Artists, Coastal States Producing, Hilton Hotels, EG&G, Canadian Homestead, TraveLodge, Midas International, Combined Insurance, Consolidated Leasing, Control Data would have been a perceptive acquirer of growth stock, and have racked up capital gains by June, 1969, averaging probably 500 per cent or more.

CHAPTER IV

Convertible Securities

IN addition to the standard corporate securities—bonds, preferred and common stocks, and warrants—there are two hybrids that have become widely popular among investors because they combine the qualities of a fixed-dollar investment with the flexibility and market action of a common stock. These are called convertibles and are of two varieties: convertible bonds and convertible preferred stocks. We'll talk about the bonds first.

Convertible Bonds

A convertible bond has the essential structure of any other bond. It represents money a company has borrowed; it promises to pay back that money in full to the bondholder on a specified future date and to pay interest at a fixed rate semiannually with maturity; and it customarily comes in thousand-dollar denominations, either in coupon or in registered form. The "convertible" differs from the ordinary species of bond, however, in that at the option of the holder it can be converted into a specified number of common shares of the company at a price (or prices), and under provisions spelled out on the face of the bond itself. The holder is never compelled to convert, and may keep this bond just as it is, until it is paid off or called in; but somewhere along the line if he does

not convert or sell, he may deprive himself of a significant capital gain.

RCA Convertibles

Let us take as an example the "convert" of a well-known company, RCA. In July, 1969, you could have purchased a $1,000 4½ per cent RCA bond (listed on the NYSE) for $895, providing a current yield on your money of 5.03 per cent (just a fraction higher than the then-prevailing savings bank interest rate). The bond was then (and still is) convertible into 16.95 shares of RCA, or at roughly $60 per share for each $1,000 bond. The common stock was selling then at $42 a share. On that basis, the RCA bond was actually worth, if converted, only $690 ($42 times 16.95 shares); yet it was then selling at $895. Without any conversion privilege, the debenture would probably have sold at $680.

In other words, investors were willing to pay a 26 per cent premium ($215, the difference between $690 and $895) just for the privilege of converting into RCA common at some later date. Why would they pay so much extra for this privilege? Because investors and analysts believed that within a few years earnings of RCA might increase so much that RCA common would sell at $100 a share. If that happened, the bond purchased at $895 would be worth at least $1,600, and a handsome gain would be realized. Meanwhile, the holder would have enjoyed the safety provided by the obligation of a great company, and a 5.03 per cent return on the funds he had invested.

Evaluation

From this illustration you can "get the message" of convertible bonds—their dual appeal in combining valid poten-

tials for capital gain with dependable income and limited risk. Furthermore, because convertible bonds almost always sell at more than they would be worth if immediately converted, you must make a dual calculation in determining whether or not to purchase one. First you must estimate what the bond would be worth as a plain bond, with no exchange privilege; and then (1) decide whether its current price includes too high a premium (above the intrinsic worth of the security) for the privilege, and (2) estimate how long you may have to wait for the stock to reach a level making conversion worthwhile.

Remember the potentials for increase in price of your convert *depend almost entirely* on the market action of the common stock. It is therefore important that you select "converts" in companies with "lively" stocks, and by that we mean those whose net per-share earnings are likely to increase on the average at least 10 per cent annually. Rising earnings are the most dependable upward propellants of common stock and, indirectly, of convertible bonds.

In general, if the premium-over-conversion value is substantial, it is evidence that "the market" thinks that the related common stock has above-average potentials for gain. Try to buy promising "converts" at a premium of no more than 15 per cent above "investment value."

Advantages for Issuing Companies

For the issuing companies, convertibles have the advantages of: (1) being a debt security with interest deductible from earnings, (2) providing a lower interest rate than would be required on a "straight" bond, (3) selling common stock (for future delivery) at a price generally around 15 per cent higher than its quotation at the time of the bond offering, (4) making possible higher per-share net earnings on stock already outstanding, (5) reducing underwriting costs, (6) facilitating

corporate fund raising because "converts" are always easier to sell than common stocks, and especially so in dull or descending markets, (7) enabling instant elimination of debt by "calling" the bonds and "forcing" conversion.

Advantages for Investors

The attractions of convertible bonds for investors include: (1) a safer security, less likely to fade in market value in troubled markets than common stock, (2) superior collateral value, (3) high potential for gain, coupled with limited risk, (4) a senior security, providing an assured income, often on a higher yield basis (per dollar invested) than obtainable on the common stock of the issuing company. There were (autumn, 1969) over one thousand issues of convertible bonds for you to choose from, and at least one hundred new issues a year are coming on the market through underwritings or the offering of securities for exchange, in corporate acquisitions or mergers.

Without any recommendation, endorsement, or preference, we are tabulating (page 24) a group of convertible bonds representative of values available in the market in July, 1969.

Naturally, prices on all of these bonds are different today; but this list does give you a good cross-section of higher-quality convertible obligations. On the bonds of smaller, lesser-known companies, the interest rates and yields would run considerably higher, with both risks and upside potentials greater.

In general, purchases of "converts" are best made when they first come on the market (the downward bond prices of 1968–1969 would have been an exception to the rule). A professional trader in convertible bonds seldom converts. If he bought an issue at, say, 104, and soaring price of the related common stock carried the bond to 200, he would sell —and look around for reinvestment in another bond selling

AS OF JULY, 1969

Issue	Maturity	Approx. Price	Current Yield	No. of Shares per $1,000 on Conversion	Estimated Investment Value
Aluminum Co. of America	5¼ 1991	101⅞	5.15	11.76	75
Burroughs Corp.	4⅝ 1994	105½	4.38	6.29	65½
FMC Corp.	4¼ 1992	84¾	5.04	24.10	65
International Silver	5 1993	94	5.32	28.57	71
Ogden Corp.	5 1993	74	6.76	20.00	68
Pan Am Air	5¼ 1989	79⅜	6.61	33.06	71
Rochester Telephone	4¾ 1994	100	4.75	21.74	71
SCM Corp.	5½ 1988	98⅝	5.58	21.04	74
Stauffer Chemical	4½ 1991	97½	4.62	18.69	69
Virginia Electric & Power	3⅝ 1986	75	4.83	26.40	65½

near par, which, he hoped, would duplicate the performance of the original selection. If you own stock in a company and "rights" are given you to subscribe to a convertible bond therein, it will usually pay you to subscribe. If you purchase a convert at 120 or higher, remember that that premium can fade rapidly in a bear market; so always try to buy your convert at a price as close as possible to its "estimated investment value."

Convertible Preferred Stocks

Convertible preferred stocks are cousins to convertible bonds. They too combine protection and opportunity in a senior security, with a fixed return and the right to exchange into common stock. Preferred stocks, however, are an equity security and not a debt of the corporation. As such, they do

not depend on the faith and credit of the company for dividend assurance, but on corporate earnings; and it is perfectly possible for a preferred stock to omit dividends if these corporate earnings decline drastically or vanish. To compensate for possible dividend omission, most preferred stocks are cumulative; that is, they contain a provision that if dividends are unpaid in any year, they are to be paid up in full at some later date; and in any event such accrued dividends must all be paid before the common stock may receive any dividend distribution.

Because preferred stocks, as a class, rank below bonds with respect to ultimate safety of principal and dependability of income, they are more volatile in market price and may provide a higher current yield than bonds in the same company. In a major company, however, there is usually very little risk of a dividend lapse. Also, convertible preferred seldom command as high premiums over conversion value as do convertible bonds.

Except as noted above, almost everything we said earlier about convertible bonds would apply to the preferred. There's a similar (but a little less sturdy) protection against interim market weakness, and a similar potential for long-term growth and gain. Also, the larger issues of convertible preferred enjoy active trading markets, and reflect with great sensitivity significant swings in the related common stock. In depressed and uncertain markets, the convertible preferred of a company is often a more desirable purchase than its common stock.

Supply

Whereas there are one thousand issues of convertible bonds to choose from, the number of actively traded convertible preferred securities would probably not exceed 150. Unlike the bonds, very few of these preferreds originate as public

offerings. The great majority of them have resulted from merger exchanges in recent years. Because the offering of a preferred stock in a proposal of acquisition represents a "tax-free" exchange, this type of security has gained wide popularity as trading "wampum." Stock holders of the "selling-out" company are attracted by the preferred stock in a larger company. It is a senior security, giving them, presumably, an investment better protected against market loss and dividend reduction than the common stock they had been holding, and a more actively traded issue. Frequently, too, the dividend rate on the convertible preferred is higher, and thus provides greater annual income than the stock surrendered in exchange. Furthermore, the exchange of common stock in one company, into the preferred of another, is a tax-free exchange, and any capital gain it creates does not become taxable, unless and until the shares are actually sold.

For these reasons, convertible preferred securities are coming on the market in greater profusion now than at any other time in history, and the many new and attractive issues are steadily broadening the list from which you may select.

As some sort of guideline for your own consideration of convertible preferreds for possible purchase, the table below shows a group selected at random and presented as illustrative of values available.

CONVERTIBLE PREFERRED SECURITIES

Issue	Dividend Rate $	Market Price $	Per Cent Yield	No. of Shares on Conversion	Converted Market Value of Common $
Allegheny Ludlum	3	46	6.5	1	43
Beneficial Finance	4.30	79½	5.4	1.40	71.40
Cluett Peabody	1.00	19½	5.1	0.63	17.32
Newmont Mining	4.50	93	4.8	3.125	79.70
Sun Oil	2.25	40½	5.5	0.69	37.20
TRW, Inc.	4.40	87	5	2.20	79.20
Textron, Inc.	1.40	27½	5.1	0.90	24.75

The examples in the table, taken from the market of October 15, 1969, illustrate the fact that very large and renowned corporations issue attractive convertible preferred stocks. Furthermore, you will observe that all of these issues were selling at a premium (variously between 7 and 17 per cent) above the value of the common stocks into which they are convertible. You may not find frequent use for convertible preferreds in your own portfolio, but if such an issue is offered to you under terms of merger for a common stock you hold, you may benefit handsomely by accepting.

CHAPTER V

The Wonderful World of Warrants

THE last security to be added to the vehicles of corporate finance was the warrant. It is the lineal descendant of the convertible. It is called the will-o'-the-wisp of Wall Street because of its fleeting values, its flimsy substance, and its capacity to soar or sink swiftly. The warrant is the most exciting and volatile of all marketable securities and presents to traders who time their purchases well opportunities for sensational gains, as well as the lurking possibility of total loss. This most speculative of securities beautifully illustrates the Wall Street adage "The farther you're out on the dog's tail, the wider the swing."

The warrant has no claim on assets, no share in earnings or dividends, and no voting rights. It is merely a negotiable certificate issued by a corporation entitling its owner to purchase (directly from the corporation) a fractional share, a share, or shares of common stock at a specified price for a specified period of time. Most commonly, warrants are issued for three- to five-year periods, but there are a few (Tri-Continental Corporation, Atlas Corporation, and Alleghany Corporation, for examples) that have no time limitation. These are called perpetual warrants.

The warrant is generally used in corporation finance under special conditions. It may be given as a sop or inducement to stockholders, and sometimes to creditors in a reorganization, to compensate these distressed investors in a meager

way for the losses they have incurred in a prior bankruptcy proceeding, and to give them some hope, however remote, of at least a partial recovery. In such cases a certain number of warrants are usually offered in exchange for each 100 shares of stock or $100 face amount of debt securities. Senior creditors in a reorganization do not object to the issuance of warrants, because this procedure gives away or distributes no part of corporate assets or earning power; it merely gives the holder the opportunity, at a future date, to deliver new money (without any underwriting cost) to the corporate treasury through purchase of its common stock. Furthermore, the subject common stock at the time the warrant is issued usually has a market value far below the subscription price of the warrant.

A Reorganization Warrant

Alleghany Corporation warrants mentioned above were the product of a reorganization. This dazzling railway holding company, which controlled at one time the Nickel Plate, the Chesapeake & Ohio, and the Missouri Pacific Railroads, had outstanding in 1952 a $100 preferred stock with unpaid back dividends accumulated to the amount of $113 per share. To induce preferred stockholders to forgo their claim to this $113 in back dividends (which didn't have a Chinaman's chance of ever being paid anyway), an exchange offer was made to them. For each $100 in face amount of preferred stock there was offered a new $100, 5 per cent debenture, plus twenty warrants, each giving the holder the privilege of buying one common share of Alleghany Corporation at $3.75 a share, at any time without limit in the future. As a result, two million Alleghany warrants came into being. They sold immediately (in 1952) at about $10.75 in the over-the-counter market (they were later listed on the AMEX) at a time when Alleghany common was trading at $3 a share.

The price relationship existing between the stock and the warrant then, and during the next four years, classically illustrates the three peculiar virtues of a warrant: (1) it can far outpace the common stock to which it is tied in percentage of market gains, (2) it has a market value at a time when its purchase privilege is actually worthless, and, (3) it always sells at a price above the mathematical value of its conversion.

To illustrate, when Alleghany warrants sold at $.75, they were technically worthless because no one would put up money to buy common stock at $3.75 from the company when he could buy all he wanted in the open market at $3. Speculators gladly bought the warrants, however, convinced that sometime in the future Alleghany common might sell substantially above $3.75. Well, it did! In 1955 Alleghany common reached $11. At that price the warrant was actually worth $7.25 ($11.00 — $3.75) but it didn't sell there—its market quotation was $7.875, illustrating the "overspin" we've been talking about. In the period between 1952 and 1955 the warrant went up from $.75 to $7.875, a gain of 950 per cent on dollars invested, while the common stock rose from $3 to $11, a gain of only 265 per cent.

Here, as in other illustrations to follow, you will see that the purchase of warrants, in bull markets, can create *far greater capital gains* on each dollar employed than investment in the related common stock for the same period. A rewarding warrant will rise from three to ten times as fast as the common. The whole idea is to start buying the warrant when it is selling at one-third to one-tenth of the prevailing market price of the affinity common stock. (The Alleghany warrant, in the illustration given, was selling at one-fourth the price of the common at the start. General Tire $60 warrants sold at $7 in August, 1956, when the common sold at $50 [about seven times more]. When General Tire common, some years later, rose to $275, the warrant sold at $215. Imagine a gain of 2,900 per cent!)

Warrants with New Issues

While warrants are still employed in corporate reorganization, by far the greatest supply of them now comes from new issues.

Back in 1950 there were only about ten American warrants (there were quite a few more in Canada) actively traded. Those warrants stemming from reorganizations in the Depression years had, for the most part, been exercised and expired. As needs for corporate capital grew after the Korean War, the practice of issuing warrants as "sweeteners" in the offering of senior securities steadily increased and in 1968–1969, when bond interest reached the highest rates in a century, the idea of adding a warrant became most appealing because it made possible the issuance of bonds with lower coupons—6 to 6½ per cent instead of an 8 per cent straight debenture with no trimming.

To illustrate, in 1969 Cities Service Company offered an issue of 6⅝ per cent debentures due in 1999 with each bond coupon carrying five warrants each to buy a share of Atlantic Richfield common at $110 until September 1, 1972. It is customary for the warrants to be detachable after a short period of time so that the new bond and the warrant may be traded separately. These bonds with warrants prevalent in 1968–1969 broadened the warrant market and made possible a diversity of selections from among actively traded issues.

Not only have warrants in the late 1960's come out in profusion piggyback fashion on bonds, but they have become increasingly fashionable among underwriters in issuance of units, such as two shares of common and one five-year warrant at a total price of, say, ten dollars for the unit. This kind of package underwriting has proved attractive to investors, and issuing companies favor the practice for a special reason. The warrant, when later "exercised," brings in new capital funds to the company without any additional underwriting

costs. (Note that the word "exercise" in this instance does not mean to trot a horse or walk a dog, but to put up money required to buy a share of stock.)

Examples

In 1969 American Oil Shale Corporation was financed by public offering of units at $50 each consisting of two shares of common and one warrant to buy common for five years at $10.

On June 17, 1969, Midland Mortgage Investors Trust raised $20 million by offering 1.6 million "shares of beneficial interest" together with 400,000 warrants. This "package" was offered in units consisting of four shares of common and one warrant (to buy one share at $12.50 between September 30, 1969, and September 30, 1974) at a combined price of $50 a share.

On June 17, 1969, Computer Radix Corporation went public with the sale of 80,000 units at $9.50. Each unit consisted of two shares of common stock and one redeemable warrant to buy one share for a three-year period at $5. The unique thing about this warrant was its redemption feature. The warrant could be called in any time after twelve months at $.50 (unless previously exercised). In this way the company had a device to compel exercise of the warrant (if the price of common were sufficiently attractive) before the three-year period was ended. On August 20, 1969, Multiplex Corporation offered 150,000 shares of common and 150,000 warrants to buy common at $4 in units—one of each—at $3 per unit.

Warrants as Merger Bait

With all the conglomerate companies plying their trade in 1966–1969, it was only natural that much ingenuity was

expended in the tailoring of attractive (tax-free) exchange offerings to companies sought for acquisition. The most common vehicle to lure shareholders of target companies has been the convertible preferred stock. This provides (1) a senior security, (2) a cash dividend usually larger than that being paid on the common stock of the selling-out company, and (3) the hope of a possible gain by a conversion privilege into the acquirer's common. An additional sweetener in some acquisition offers has been the offering of a warrant.

The most remarkable use of warrants so far in company take-overs was the offering in 1969 of 980,000 warrants to purchase Investors Funding Corporation Class A stock at $28 a share in exchange (one warrant for one share) for the entire capital stock of Congressional Life Insurance Company of New York. At the time the offering was made Investors Funding Class A stock was selling on the AMEX at 43⅛, giving the warrant an apparent value of $15. This is believed to be the first acquisition offer consisting entirely of warrants.

Finally, in 1969 warrants were introduced as part of a commission arrangement to broker/dealers in the selling of registered oil-drilling programs. For example, White Shield Oil and Gas of Canada made available a certain number of warrants to distributing security firms (in addition to a cash commission) for the sale of each $5,000 amount of drilling units. The warrant represented three-year "call" on White Shield of Canada common at $15 a share. (The stock was trading at around $12 at the time.)

Virtues and Pitfalls

Regardless of how they originated, warrants are attracting thousands of new speculators each year because, as the most highly leveraged of securities, they can make possible extraordinary percentage gain on a relatively small investment. A $100 investment in RKO warrants at $.10 each in 1942

(1,000 warrants) would have been worth $13,000 in 1946. (You might not have been able to buy 1,000 warrants at that price and you might not have held them four years, but such a transaction was theoretically possible.)

The Down Side

Bear in mind that all but a very few warrants have a set date, on which they expire, one, two, five, or possibly ten years away. So the first thing you must note in screening warrants for possible purchase is the expiration date. If it comes during the middle of a bear market, then the price of the warrant may fade dismally; and if the subject common stock sells below the "exercise" price on the last day in the life of the warrant, regardless of where it sold earlier, it becomes worthless! Penn Dixie Corporation warrants to buy the common at $20 expired on May 1, 1949. Three years earlier the common had sold at $30 and the warrants at $18, but just before expiration date Penn Dixie common sold at $20 and the common traded at a meager $.50.

Sometimes warrant maturities have been extended. For example, in 1969, warrants to buy Lin Tso Corporation common stock at $7 until September 4, 1969, were extended by the company for ninety days because, in August, this common was selling at $5.

Warrants are not a one-way street, and you must be prepared for jolting swings down as well as up. To guide you in this tricky field we offer five final suggestions: (1) look for a warrant that sells for a fraction of the common stock price; (2) watch the maturity date like a hawk; (3) make sure the issuing company can expand its earning power, because you'll get nowhere with the warrant if company operations are unprofitable; (4) seek out the larger issues with more active trading markets, so you don't "get stuck" if you have to sell in a hurry; and (5) keep constantly on the lookout for lively

newcomers among public offerings, merger offers, and the reorganization of tired companies.

Marketability

There are (as of September 1, 1969) about two hundred issues of warrants available for your selection. Of these, none are listed on the NYSE, about forty-two are on the AMEX, and the rest have their trading market over the counter. (In 1968, 29.8 million warrants traded on the AMEX.) In less active issues you have to trade nimbly and, even if you want to buy one thousand or more, acquire your position a hundred or two hundred at a time so as not to "rock the boat." While they pay no dividends, it's best to have the warrant in your own name, not "street name," because you should be kept directly informed (by the company) about changes affecting your warrant—a merger, a stock split, or possibly an extension of the expiration date.

AVAILABLE WARRANTS

Company Name	Exercise Terms	Expiration Date
Allied Products	1 share at $58	7/1/83
American Telephone & Telegraph	1 share at $52	5/1/75
Atlantic Richfield	1 share at $110	9/1/72
Consolidated Leasing	1 share at $6	4/1/73
Financial General	1.2 shares at $18.50 total	6/1/78
Fuqua Industries	1 share at $44	12/1/73
Indian Head	1 share at $25	5/1/75
Levin-Townsend	1 share at $50	1/15/79
Ling-Temco-Vought	1 share at $50	1/1/72
Mobile Home Communities	1 share at $10	8/26/74
Quebec Natural Gas	1 share at $12	6/1/73
Trans World Airlines	1 share at $22	12/1/73
United Smelting	1 share at $68	3/1/79
Uris Buildings	1.06 shares at $11.78 per share	5/1/75

Strictly for purposes of illustration and without any recommendation or endorsement, there follows a list of fifteen sample warrants for your review.

If any of these interest you, get the latest information about the progress and earnings of the subject company, and quotes on both warrants and related common stocks. Then decide if the option to buy is worthwhile and profit-prone, within the remaining life of the particular warrant. And lots of luck!

CHAPTER VI

Listed Markets

THERE are tens of thousands of private corporations in America in which only a few shares of stock are issued, and these shares are all held within a family or a small group of individuals. These companies may be small, or very big, like Reader's Digest or Hughes Tool Company. Obviously, securities in these corporations are not the ones we're talking about because, being closely held, few people are interested in them, and there are not enough shares available, and in public hands, to create a trading market.

Early in the economic expansion of America, however, the stocks of public corporations—utility and insurance companies, canals, and railways—were acquired by a few thousand opulent individuals. As a result, there developed need for a securities' market—a place where these shares might be bought, sold, or quoted for the benefit of buyers or sellers, or of estates of deceased persons seeking to liquidate holdings. Starting in 1792 a group of men would gather each weekday under a buttonwood tree in Wall Street, and trade among themselves in the shares of various public companies. That was the beginning of what is today the New York Stock Exchange, with over 14 billion shares in over 1,300 companies now listed, and where as many as 21½ million shares have changed hands in a single day. This financial institution has played a major part in the growth of America.

The New York Stock Exchange is the most prestigious

securities market in the world. It is an auction market conducted in the New York Stock Exchange Building at 11 Wall Street, where securities are regularly traded between 10 A.M. and 3:30 P.M. on each business day. Only members of the Exchange are permitted to trade.

Some of these work on the floor of the Exchange and are called floor brokers. They do the actual trading in an open arena, uniquely equipped with eighteen U-shaped sectors called posts. East of these posts is a center of trading for about seventy-five stocks; and brokers are assigned certain stocks in which they are "specialists," that is, they trade only in these stocks. A stock not especially active may have only one specialist; but active issues, such as IBM, United States Steel, General Motors, may have several. The functions of the specialist are threefold: (1) to make and maintain an orderly market in the subject issue, (2) to see that fluctuations are not wide or excessive, and (3) to execute orders for other brokers. A specialist is expected to "make" a market, if and when nobody else does, buying or selling on his own account if necessary. This is a two-way call market in which both buyers and sellers compete.

Bids for stocks and offerings are shouted out, and the actual sale (or transaction) is determined by the meeting of the highest bid and the lowest offer at the moment. The specialists keep a "book" in which are recorded all the "open" orders in his particular stock. When the gong rings, opening the market each day at 10 A.M., he gauges the probable opening price by (1) the last sale on the preceding trading day, (2) the number of shares he has on order to buy or sell in his "book," and (3) the orders other floor brokers bring to him to buy or sell, accumulated overnight. To illustrate, if, when the market opens in United States Steel, total orders in sight are to buy 9,000 shares and to sell 20,000, he may well conclude that the opening transaction will be at a lower price than yesterday's closing one, simply because there are more sellers than

buyers. The first transaction might be for, say, 500 shares with the bid at the moment for 500 at 40 and an offering at 40½. The buyer may raise his (auction) bid to 40¼ and the seller reduce his offering by ¼, and a transaction be concluded at 40¼. This is instantly reported, and the number of shares and the price are flashed electronically in a box above the trading post. This information is picked up by "reporters" employed by the Exchange, who transmit it to the "ticker." Immediately that sale will appear on ticker tapes and flash on wall tickers in broker's offices from coast to coast. The actual transaction is noted by the buying and selling brokers, and telephoned to the office of each. In moments, the client of each brokerage house may learn of his purchase and sale, and the transaction will be "confirmed" by mail that day. Settlement—the delivery of the stock by the seller, and of a check in payment by the buyer—must be made within the next five days. All this will be done for a commission running to about 1 per cent of the total sum involved.

That's the way it works. The order you place goes on to an assembly line. You give your order to the customer's broker, he has it phoned immediately to a clerk of the firm "on the floor," who gives it to the firm's floor broker for execution. It's a marvelously swift and effective system and results, quite amazingly, in an orderly market in some 1,700 different issues, with price changing during each day reflecting predominance of buying or selling, as well as the political, economic, and monetary news of the day, and significant information released about individual companies—their earnings or losses, dividend declarations, mergers or acquisitions being negotiated, exciting new products, technological breakthroughs, or major strikes of minerals or petroleum.

There's one vital function of the specialists we mentioned only briefly, and that is his obligation to make a market where none exists. For instance, if at the opening there were orders to sell 10,000 shares of United States Steel, and no buyers,

the specialist would make a bid on his own account, reasonably related to the last prior sale. Thus the specialist must be financially resourceful, because in a severe market decline he may be called upon to bid and buy for his account $2 or $3 million worth of a stock. If he fails to maintain at all times an orderly and fairly priced market in his issue, the specialist may be reprimanded or removed by a committee of the Exchange.

To handle huge volumes of transactions, usually 10 million shares or more each day, everything possible is done electronically or by computer. The most recent proposal is the printing of shares on punch cards instead of on the traditional ornately engraved certificates, adorned with fancy art work.

All listed stocks are traded under symbols containing no more than three letters: American Telegraph is "T," General Motors is "GM," United States Steel is "X," Western Union is "WU," Sears Roebuck is "SR." Furthermore, the most famous stock market barometer, the Dow-Jones Industrial Average, is composed of the common stocks of thirty leading American companies in various fields, all listed on the New York Stock Exchange.

These companies are so large that, together, they represent over 30 per cent of all the assets of all the companies listed on the New York Stock Exchange.

It is because of the size and prestige of the NYSE and the fact that the securities of many of the most important companies in the world are listed there, that millions of investors insist on "listed" stocks. Furthermore, because of the size and breadth of trading markets and the number of shares available for purchase or sale, the NYSE is a principal shopping center for the large institutional buyers, investment trusts, banks, and insurance companies, pension trusts, and endowment funds. In fact, in 1969, over 48 per cent of all trading on the NYSE was for institutional accounts. Institutional buying is often in

such large blocks that single transactions (sometimes 100,000 shares or more) are concluded between stock exchange houses "off the board" at prices approximately the same as the last preceding reported transactions by these issues on the NYSE. Also in 1969, computerized systems were instituted whereby the desires of big buyers to buy or sell a large block of stock are matched and block transactions at special rates are swiftly and confidentially arranged between the buying and selling parties electronically brought together.

Stock buyers of all descriptions attach great importance to "listed" shares, because (1) trading information is so fully available, (2) the sales volumes and prices are reported instantly on the ticker all day long and this information summarized in the financial press, (3) "fresh" quotations are promptly available (now delivered at push-button consoles in hundreds of brokerage houses), (4) orders are executed immediately, and (5) generally, there is greater acceptability of "listed" shares for collateral purposes.

From the corporation's viewpoint, listing its securities on NYSE has prestige value, often improves the price/earnings ratio at which shares are quoted, attracts more stockholders (and in particular institutional buyers), permits large-scale corporate financing to be readily done and at lower underwriting costs, increased daily volume or shares traded, and provides securities more attractive and acceptable as "merger bait."

The NYSE also has a section for trading bonds of the United States Government and many major corporations. Bond trading is done in separate rooms by brokers called collectively "the Bond Crowd."

Second in importance among securities markets is the American Stock Exchange, called the Curb Exchange because until 1921 brokers actually traded securities outdoors from curbs and windows on Broad Street. The AMEX lists over 1,100 stocks and over forty issues of warrants (the NYSE

did not trade in warrants until listing of AT&T warrants in 1970). These issues are of companies generally smaller, less well known and, often, younger than companies on the NYSE, and the average prices of shares traded (March 1, 1969) was about $30 against $50 on the NYSE. Stocks on the AMEX generally display broader price swings, and in 1967 over 120 issues doubled (or more) in price. Descent in price on a percentage basis can also be swifter on the AMEX than on the NYSE in bear markets. The AMEX also has a section for bond trading.

The National Stock Exchange located in New York trades several dozen stocks in smaller, newer companies; and in many instances these same stocks are traded over the counter.

There are also eleven regional exchanges. The largest of these (and third in size nationally) is the Midwest Stock Exchange, formed in 1949 by combining the floor-trading facilities previously provided by the Chicago Stock Exchange and those in St. Louis, Cleveland, Minneapolis, and St. Paul. Other regional exchanges are in Boston, Cincinnati, Detroit, Salt Lake City, San Francisco, and Spokane.

These "regionals" came into being to provide markets for stocks in local companies, often too small and too little known outside their home areas to merit a New York listing. Whereas these regional exchanges continues to serve geographic needs (especially in Salt Lake City and Spokane in local mining issues), increasingly the larger ones also trade many of the issues listed on the New York Stock Exchange. In fact, over 220 NYSE issues are traded (1969) on the four largest regional exchanges. Prices there are not usually reached independently but rather reflect the last prior sales on the NYSE. This idea of locally trading stocks that are listed in New York is not very popular among NYSE firms, because it takes business away from NYSE members.

It does serve a useful purpose, however, especially on the San Francisco and Los Angeles exchanges, because it con-

tinues to provide a market in major issues after the NYSE has closed (because of the three-hour time difference). Regional exchange memberships cost far less than seats on the AMEX or NYSE, and trading "outside" escapes New York State transfer taxes on security transactions.

Canadian Exchanges

Until the imposition of the equalization tax (11 per cent at the time of writing), there was a large volume of trading by Americans on Canadian exchanges. There are five of these: (1) the Montreal Stock Exchange, comparable in stature to the NYSE, (2) the Canadian Stock Exchange, also located in Montreal, dealing in shares of smaller and often more speculative Canadian issues, (3) the Toronto Stock Exchange, largest in daily share volume because it majors in "penny" stocks of oil and mining companies, (4) the Vancouver Stock Exchange, and (5) the Calgary Stock Exchange (these last two are regional in character). Speculative swings in Canadian securities are famous, and some shares, especially on the Toronto exchange, have gained as much as 200 or 300 per cent in a single day. Speculators get a kick out of trading low-price Canadian issues (though they should always be mindful of the great risks involved), because they get to feel like "big shots" when they deal in thousands of shares of stock at $.10 or $.20 a share. (A round lot on the Toronto is five hundred shares if the stock sells below $1.) There is also a Canadian tax on dividends of Canadian companies paid to American citizens; but that doesn't bother speculators in Canadian low-priced long shots very much, because most of these issues are light years away from any cash dividends.

For investors dealing in stocks listed on any of these exchanges, the published price and volume tabulations give vital clues as to market popularity and often reflect with considerable accuracy significant intermediate or long-term trends

in the fortunes of industries and individual companies. There are many individual systems of stock speculation which base their buy and sell decisions on price and volume equations, and on the market performance of issues, rather than on such fundamentals as earnings, dividends, and book value. Recorded transactions in listed issues are also accepted for official valuation of securities for tax, estate, or collateral purposes.

Much of your time as an investor will be spent following the price changes of listed stocks, especially those on the NYSE and AMEX. Totally on the fourteen exchanges in the United States, approximately 4,300 different issues are listed, most of them traded daily. In point of total dollar volume, the NYSE does approximately 80 per cent, AMEX 10 per cent, and the regionals 10 per cent. As time goes on we can expect many of the newly underwritten stock issues to attain listed status, and trading volumes will thus tend to increase quite indefinitely. Trading in listed issues is seldom listless!

CHAPTER VII

The Panoramic Over-the-Counter Market

IN our free-enterprise economy, almost anything can be bought or sold at a price, from a bushel of grain to a tanker or skyscraper, from a low-priced stock to the control of the Amerada Corporation. Each day billions of dollars change hands in America, and much of this transfer of ownership is in marketable securities—bonds and stocks. These securities have just two marketplaces—the national and regional stock exchanges in the United States (fourteen in number), and the coast-to-coast over-the-counter (OTC) market. These markets, the listed and the unlisted, serve two primary purposes. (1) They provide a place where buyers and sellers meet and where securities may be sold at prices fair to both, and (2) they provide orderly markets sensitive to day-to-day political and economic influences and to ever-varying industrial and corporate prospects and conditions.

The huge over-the-counter market is now becoming increasingly better understood by all classes of investors. A constant spread of information is enlightening the public on the function and the indispensable nature of this vast sea of securities. When Xerox, Natomas, or IBM, listed on the NYSE, jump five points in a single day, the financial press headlines the fact. Yet, if Winnebago Industries goes up five points, or a billion dollars in government bonds changes hands in the same day over the counter, no one hears about it. A problem of the OTC market has always been lack of publicity, because

its transactions are given no public notice, and volume of transactions and daily price swings are simply not publicized.

Unique Features

But mere absence of publicity in transactions should not becloud the facts that (1) over-the-counter is our biggest market; (2) it is the trading habitat of over 95 per cent of our government securities; (3) it is the trading arena for most municipal bonds—those issued by states, cities, counties, districts, and public authorities; (4) it is the only marketplace for about 34,000 unlisted stock issues; (5) the daily volume of OTC transactions exceeds the combined total sales on all of our exchanges. All this is not to belittle the NYSE, AMEX, or the regional stock exchanges, but merely to describe their essential but separate roles as providers of negotiable marketability.

Unlike stock exchanges, where call-type auction markets are maintained, over-the-counter trading is based on individual dealers making bids and offerings generally for their own account. If these dealers stopped making their bids and offerings and refused to risk owning and "carrying" securities, this OTC market would disappear. Therefore, not only trading agility but substantial financial resources are required of dealers in unlisted securities.

Money Stocks

An elite division of the OTC market is made up of bank and insurance stocks. Practically all of the fourteen thousand commercial banks in the United States trade over the counter, and only bank holding companies have their shares listed on major exchanges. Life insurance companies are steadily attracting new stockholders. We have over sixteen thousand dollars per capita in American life insurance holdings, and

in addition to the big mutuals (with no publicly held shares) that write 53 per cent of all life insurance, there are about fourteen hundred stock companies. Most of these have their publicly owned stock bought, sold, and quoted only over the counter. There are dozens of quite small life insurance companies and some large and nationally known ones, such as Franklin, Lincoln, National Life and Accident, Republic National, Connecticut General, Business Man's Assurance, and Manhattan Life. During the period 1950–1965 some remarkable capital gains were recorded in life insurance shares, and several active issues advanced by more than 500 per cent. Life insurance still ranks among our fastest growing industries.

Individual investors have for years given little attention to preferred stocks, issued principally by utility companies. Between 1964 and 1969, however, many large industrial companies offered convertible preferred stocks in exchange when seeking to acquire shares of another company. As a result, preferred stocks are now more popular than at any time since the 1920's, and there is an extensive OTC market in them (also, quite a few have become listed). Preferred stocks, even if listed, are frequently traded in large blocks over the counter. The stocks of most fire and casualty companies are also traded OTC.

Furthermore, there are over thirty thousand separate issues of widely diversified common stocks traded, or quoted, with some frequency, OTC. These include sound and seasoned issues such as American Express Company, Investors Diversified Services, First Boston Corporation, Tucson Gas & Electric, Wisconsin Power and Light, Anheuser-Busch, Bank of America, Greatamerica Corporation, Fidelity and Deposit, and Pacific Gamble Robinson Company.

While the OTC market embraces not only some of the most elegant equities anywhere, it is also the native trading arena of most early-stage. highly promotional, or burned-out secu-

rities. A new mobile home company, a hopeful leasing company, a hamburger franchise chain, a land speculation company, an eager scientific enterprise, a computer service outfit, or a drilled-out oil company or faded copper mine—all these assorted securities with variously high hopes or dismal conjectures find buyers and sellers over the counter.

New Issues

The over-the-counter market services another indispensable function when corporations "go public." In recent years, hundreds of companies, for years privately or family owned, have offered their shares to the public. The largest issue was the Ford Motor Company common-stock offering a few years back at 64½. On the day this issue was offered, over 500,000 shares were traded in the OTC market. Other renowned companies that shared their equities with the general public since 1950 and acquired realistic market valuations OTC were Champion Spark Plug, Campbell Soup, Upjohn Company, Carter Products, Inc., Comsat and General Aniline, F. & M. Schaefer Brewing, and Diamond Crystal Salt Company.

All of these issues, immediately upon issuance, started trading in the OTC market. It was there that market levels were established and issues became seasoned even though they later moved to AMEX or NYSE listing. Some of these new issues reward subscribers handsomely. Revlon, Inc., came out at $12, gained several hundred per cent, and was later split two-for-one. Hudson Vitamins brought out its common at $15, and the stock sold past $25 on the offering day. Comsat, offered at $20, reached $70 within a year; Kentucky Fried Chicken came out at $15 and sold within three years to $200; Four Seasons Nursing Centers shares went from offering price (in 1968) of $11.25 to $140 within eighteen months. Thus, you can readily see that the OTC market is the launching pad

for all new equities, and often an amazingly rewarding shopping center.

This business of going public has become steadily more attractive and important. There are many impelling reasons for a closely held corporation to offer its shares publicly. These include: (1) the need to raise more capital; (2) the urge to establish corporate values for tax, estate, or other purposes by creating a public issue with an active trading market; (3) the provision of opportunities for early investors to cash in on fat capital gains; (4) the creation of an active stock issue, useful as wampum in exchange for other assets or shares in a merger or acquisition. Whatever the reasons, going public has proved rewarding to corporations and investors alike; and each year original offerings add to the OTC market hundreds of new issues providing glamour, romance, and diversity, and broaden the securities available to investors. Over six billion dollars in new issues reached the market in 1969, and they all began their market life OTC.

With myriads of issues to choose from, and hundreds of newcomers every year, investors both individual and institutional will be missing plenty if they ignore OTC, the world's largest market. Here are found not only the risky, the romantic, and the obscure, but hundreds of exceedingly durable equities which have brought honor to the American free-enterprise system and status and stature to the common stock as a worthy investment medium. Over one hundred OTC stocks have paid continuous dividends since 1900.

Operations and Trading in the OTC Market

The professionals who negotiate the buying and selling of securities in the OTC market are called traders. They sit at desks with batteries of telephones in front of them—and direct wires and/or Teletype lines to brokerage houses in other cities throughout the country. The trader may be the head of his

own firm, the partner, an officer; a member of the trading department in an OTC broker/dealer firm; or an employee or partner in a firm which is a member of the New York Stock Exchange, American Stock Exchange, or a regional exchange. The trader's function is to negotiate buying and selling transactions. He establishes markets for issues in which he specializes by stating bid price or offering prices at which he will either buy or sell (usually one hundred shares). The trader with whom he is dealing at the other end of the telephone may make a bid or offer somewhere between these figures, and an actual transaction may thus be concluded.

Some trading firms make regular active markets each day in many issues. These trading firms, in behalf of clients, may act as brokers in buying or selling at a said price and adding a commission charge; or they may act as principals, in which case they buy from, or sell to, a client on their own account and at a net price, with profit, if any, included in the price shown on the confirmation of the transaction to the customer.

The OTC market has no trading floor anywhere, and no regular trading hours. It starts to function each day as traders reach their desks, and it continues after exchanges have closed for the day. Its transactions may be arranged before exchanges specifically open or after they close, and frequently, major transactions in securities listed on stock exchanges may be made at net prices in the OTC market, "off the floor."

For information about prices at which OTC securities are quoted or sold, the best source is the financial pages of the daily metropolitan papers, or *The Wall Street Journal*. Also, weekly financial journals, such as *The Commercial & Financial Chronicle* and *Barron's Magazine* provide bid and ask prices on OTC stocks. These prices, however, only define an indicated range and do not necessarily represent the prices at which securities are traded; actual trading prices vary from minute to minute or hour to hour during each trading day.

Certain New Regulations

In protection of the public interest, the Securities and Exchange Commission (SEC) promulgated a series of new regulations in 1964, designed to bring more stability to OTC markets. The regulations, among other things, increased the minimum capital requirements of brokers and dealers to $5,000 and of underwriting firms to $50,000, and required brokers to submit to the SEC each month their ratio of aggregate indebtedness to net capital. (It must never exceed 2,000 per cent.) Not only brokers, but issuing companies, too, came in for further regulation. The SEC in 1968 insisted that OTC companies with over 750 stockholders must make the same quarterly reports, and reports on purchases and sales by "insiders," as are required of "listed" companies. These regulations affect some 2,500 companies.

Furthermore, the SEC had contended for some time that investors had not been accurately informed about OTC markets by the bid and asked quotations published in daily metropolitan papers. It had been the practice to print correctly the prevailing bid price but to add a point or two to the offering prices over and above those quoted in the "inside" market (existing between dealers)—so that offerings in general were reported about 5 per cent above their real bids.

To inform the public better, the SEC directed that, beginning February 15, 1965, daily quotations in metropolitan papers must show the actual "inside" or professional prices for both the bid and asked sides, for some 1,300 additional actively traded issues. These quotations have perhaps tended to reduce trading volumes in certain issues, partly because dealers are now required to operate on thinner profit margins.

In July, 1969, the Federal Reserve Board listed some 290 different OTC issues as qualifying for purchase on margin under the same margin rules and conditions as for listed securities (per cent margin required). Thus, for the first time

OTC stocks were accorded 65 per cent "margin" status, and the list is to be increased as time goes by to include more stocks of seasoned companies with many public stockholders.

Federal and State Regulation

The operations of the OTC market are supervised and regulated by the Securities and Exchange Commission, an agency of the federal government, and under laws in most of the fifty states that are administered by state officials. These define the conditions under which brokers and dealers may conduct their business, and screen, qualify, or reject securities which may be planned for public distribution within that state.

There is also the National Association of Security Dealers, a nationwide organization, of which more than 4,500 brokers and dealers are members. This association is designed to administer and enforce fair practice and rules of trading, to prevent fraud and security manipulation in markets, and to promote fair dealing and protection of investors. The NASD also is a disciplinary organization. It can inspect the books of brokers and dealers, determine their solvency, and even, in extreme cases, implement a revocation of a broker/dealer license for unethical practice or insolvency.

In the foregoing, we have described OTC as the mother of markets, which indeed it is. We have also tried to dispel any impression that the OTC market is solely the home of dubious securities, erratic markets, and wide quotations. In the total view, the OTC is a vast, diverse, dynamic, national and international supermarket for securities. It includes the finest bonds, industrial stocks with long records for continuous dividends, and the equities of the most elite financial institutions in the world. It is also the launching pad for dynamic, expanding young organizations. Whether for zestful speculators or trust-fund portfolios, some of the choicest in-

vestments you can encounter are over-the-counter. It is, in fact, impossible to implement a totally effective investment program, or to acquire some of the most desirable of debt and equity securities, without quoting and buying in the panoramic over-the-counter market.

CHAPTER VIII

New Issues

AMERICANS are ever interested in the new, whether it is in fashions, the theater, motorcars, houses, cosmetics, moon shots, or fads such as hula-hoops, Yo-Yos, or Frisbies. So it is in the securities market. New issues and new industries have proved wonderful, exciting, romantic, and appealing. When Revlon, Ford, and Comsat shares were first offered publicly, there was avid scrambling for them, and instant price rises. When a new industry gets the spotlight—uranium in 1956, office copying machines in 1958, bowling and electronics in 1961, fried chicken and motels in 1967, nursing centers, Arctic oils, and gambling casinos in 1969—stocks soar, fortunes are made, and hundreds of thousands of speculators add zest to their life and money to their purses.

No One-Way Street

But as we have all learned, novelty wears off and many of today's darlings and dreamboats are tomorrow's dogs and duds. To illustrate, some of the hot issues of the 1959–1961 new-issue boom blossomed like a rose, then melted like butter in the noonday sun as our chart shows.

Equally, there have been some golden winners among the new issues. Kentucky Fried Chicken came out at $15 in 1967 and was selling as high as 53⅜ in 1969, the equivalent of over $300, allowing for splits. White Shield common came

Stock	Offering Price	High 1961	Price, June 1, 1969
American Bowling	3	34	B *
Dunn Engineering	1	13¾	B *
Lence Lanes	6	37½	B *
Maust Coal	9	23¾	2⅝
National Video	3¾	120 ('67)	2¾

* B: In bankruptcy actions.

out at $12 early in 1969 and sold at 42 on July 22, 1969. Lum's was available in 1964 at $.25 a share and soared to 47 over-the-counter in 1968 after a three-for-one split ($141 a share).

In 1961 the public invested $3.2 billion in new issues, in 1968 $3.9 billion, and in 1969 about $6 billion, with the fading of the new-issue boom a phenomenon of the sullen market's midsummer of that year.

What is behind all this surging enthusiasm for new issues? Why will tens of thousands of apparently sensible investors stampede to buy unseasoned shares of new companies, often with no history of earnings (but frequently with a history of steady losses)? They'll pay gaudy prices for the newcomers when they could just as well be buying seasoned quality-laden equities such as General Motors, Eastman Kodak, American Home Products, Texaco. The answer has to be (1) the speculative, a refined gambling instinct, (2) the zest and excitement of taking great risks in hope of swift and sensational gains, and (3) the fun of investing in fashionable stocks. If the new issues are well heralded, they may sell to an early and exalted premium. Many hot stocks in 1961 and 1967 actually doubled (or more) in price on offering day. There is also a certain amount of sure-fire logic in new-issue speculation, because most of these involve small flotations: 100,000, 150,000, or 200,000 shares. Public clamor in advance of a

glamour offering of that size may cause the issue to be oversubscribed eight or ten times; and the demand-supply relationship alone may propel a stock to fat premiums simply because avid buyers so far outnumber the sellers. Add to the demand of individuals the purchasing power of mutual funds, and you can see how stocks can attain astronomical price levels in relation to visible assets or earning power. To illustrate, the total market value of the common stock Four Seasons Nursing Centers in early 1969 was $130 million, contrasted with its total book assets of $7.9 million!

Origin of New Issues

How are these new issues created and brought to market? First, bear in mind that new issues are devices to raise needed permanent capital for corporations, to supply vital working capital, to raise funds required to pay off bank loans, to increase inventory, to expand into new research, products, or markets—and above all, they hope, to enable the company to earn profits and increase them year by year. (In practice it doesn't always work out that way, because three out of every five new companies are not even alive on their fifth birthday! They're out of business or bankrupt before then.)

Granting this visible need for permanent capital, the officers of a promising fledgling corporation may approach, or be sought out by, an investment banking firm, called an underwriter. This firm will request and gather a mass of data about the company: its products or services, customers present and projected, possible research and development in new technology or markets. Biographic records of officers and backers will be obtained, and their capacity and potentials as "money makers" appraised. Financial data covering, if possible, the preceding five years is gathered, and a CPA-audited report for at least the latest year will be insisted upon. Then the bank-

ing firm will evaluate the probable market interest in, and acceptance of, the subject issue, determine the total amount of money to be raised, and arrive at some rough idea of the number of shares to be registered for sale and an approximate price range. When the underwriter has reviewed and analyzed all this material, he will make the decision whether or not to proceed with the offering.

If he proceeds, the next steps are the filing of a registration statement with the Securities and Exchange Commission covering the proposed offering, and the preparation of a prospectus. (If the total sum to be raised is $300,000 or less, a "Regulation A" statement may be filed, less complete than that required in a full registration; and certain offerings, made intrastate, are exempted from filing with the SEC.) The issuing company is responsible for preparation of the prospectus (legal fees, accounting, and printing may cost $15,000 to $40,000), which must contain all material facts and data (and omit none) about the history, nature of business, financial profitability (if any) condition of the company, purposes for which the funds will be used, names of all officers and directors, and the extent of their stock holdings. This prospectus must be submitted to the SEC. That agency will usually insist on some corrections and amendments before it will allow publication and distribution.

The new issue, by definition, is the first public offering of the common stock of a company. Probably a majority of new issues represent shares in a new corporation either just formed or in business for a relatively short time with, usually, a meager or nonexistent record of earnings, thin working capital, and often a bank loan to be paid off out of the proceeds of the offering. Also, many new issues reach the market each year involving public distribution of shares of corporations hitherto privately owned. The shares of the F. & M. Schaefer Corporation, Ford Motor Company, and Upjohn, for ex-

ample, all became public through partial sale of an existing equity by members of the family or a trust or foundation.

In any case it is most common for a management group to retain a majority of the equity.

In reading a prospectus, you will note that the shares to be publicly offered generally represent anywhere between 20 and 49 per cent of the total number of shares to be outstanding at the conclusion of financing. The prospectus not only will spell out the equity ownership but will recite all options, warrants, or other privileges to subscribe stock in the future, and will chart the financial structure of the company before and after the financing.

It is common in the case of a new issue to restrict the marketability of controlling stock held by officers and directors, by an "investment letter," which states that they agree not to offer the subject shares for sale for a period of time (usually about two and a half years), and then only after the shares have been duly registered or approved for sale. The idea behind this restriction is (1) to give some assurance of continuity of management, and (2) to prevent immediate sale of a large block of stock, which might presumably depress the market and do a great disservice to the public who had bought the stock in good faith and presumably hoped for market gain. The underwriter, too, does not wish a lot of stock to come on and depress the market shortly after he has "placed" the issue.

Underwriting Costs

There are substantial costs incurred in an underwriting, and these, too, are all spelled out in the prospectus. The actual underwriting commission may range between 8 and 10 per cent. Suppose that there is an offering of 160,000 shares

of Zilchboom Electronics, Inc., at $7 a share. Here's a rough outline of all the costs normally involved:

Total proceeds		$1,120,000
Less: (1) Underwriting discount of 10%	112,000	
(2) Expenses of underwriting including legal costs of $10,000	$58,000	−$170,000
Net proceeds		$950,000

As extra compensation the underwriter may also be accorded $16,000 five-year warrants to buy the stock at $7; the first call on future financing of the company; and a membership on the board of directors.

Usually there are two prospectuses printed. The first is called a red herring because it has, in red type on its covers, a statement that this is preliminary. It usually contains practically all the information contained in the final except the offering price. Before the actual date to be set for public offering (after registration statement has become effective), the prospectus must be sent to possible buyers, and in theory, their desire to subscribe to shares is based solely on the information thus supplied, and on nothing else. Usually buyers will mail in to the underwriter an "expression of interest" stating the number of shares they would like to purchase if, as, and when the issue is publicly offered.

Meanwhile, the underwriter will take steps to assure the successful placement of the shares. He will agree (also in the prospectus) to accept for his own retailing a certain number of shares, and customarily will form a selling group of one to twelve other broker/dealer firms, who also commit for a specified number of shares (on which they are paid a sales commission). A few days before the official offering, there is what is called a "due diligence" meeting—a gathering to which all the firms participating in the underwriting are invited. At this

meeting prospectuses will be distributed and the full details of the offering, including the price, will be announced.

The next step is setting the day of offering and arranging an ad that day in the financial press. On offering day all subscriptions will be assembled, and if the issue is heavily oversubscribed, allocations to buyers will be made and, in any event, confirmations to purchasers will be mailed out. (Actual checks in payment are due five days later.)

Both investors and the investment banker hope the issue will be swiftly oversubscribed. A market, over-the-counter, will start at once, and from one to twenty brokers or dealers may make active trading markets in the issue, quoting bid and asked prices. Often 20 or 30 per cent of the issue may be traded on the day of offering, if it goes to a premium, as certain subscribers decide to sell at once and take a quick profit. The underwriter will usually oversell by 5 to 10 per cent, expecting that some stock subscribed for will be sold back. These repurchases in the market constitute what is known as market stabilizing. The underwriter is, in fact, expected to make and to maintain an "after-market" because it is not good either for the company or for his reputation if his offering founders in the market below the subscription price. It may be regarded as evidence that his judgment was not good in pricing the issue, and his customers and selling group associates expect him to underwrite only winners! In 1967, for example, approximately 80 per cent of all new issues rose to premiums over their subscription prices and over twenty issues doubled within the year. This may have been partly because the average new issue does not exceed 200,000 shares, and if the issue is "hot" there may be ten buyers for every seller. Much of the market "zing" of new issues is, in fact, generated by scarcity value alone.

There is one thing we omitted in the details of underwriting. There are really three types: (1) best efforts, (2) all or none, and (3) firm underwriting. "Best efforts" means that the

underwriter will sell as many shares as he can, but make no warranty or commitment to sell the entire issue. "All or none" means that unless the entire issue is sold, sales made will be canceled and the deal called off. "Firm underwriting" means that the firm agrees to purchase itself the entire issue and will deliver the agreed proceeds to the company regardless of whether it sells all (or even any) of the issue. Naturally, companies prefer firm offerings because they need the money "yesterday" and do not want to run the risk of receiving none, or just a small fraction, of the capital funds sought. The "best efforts" or "all or none" varieties are confined to hard-to-sell shares, and provide an escape for the underwriter, especially if the offering comes amid a bear market. In firm offerings the proceeds are conveyed to the issuing company within a few days after the offering date.

We have dwelt in some length on new issues because (1) they can be most important in any successful investment program, (2) they represent glamour and excitement, and frequently produce dramatic and substantial market gains, and (3) subscription to new issues is in many instances the most effective way to participate in an industry, product, or technology that may point to new horizons for significant market profits. If you don't know about, and subscribe for, new issues, you will be kept from owning winners like Franklin Mint, Kentucky Fried Chicken, Downe Communications, Lum's, Four Seasons Nursing Centers, all of which produced market gains of 300 per cent or more within two years! (The last three declined drastically in 1970.)

How do you subscribe for new issues? First, you read about them well in advance. *The Commercial & Financial Chronicle, Investment Dealer's Digest,* and *OTC Securities Review* all list, weeks in advance of the offering date, companies "going into registration" with new securities. Look over this list, see who the underwriters are, and request a prospectus

from them in advance when available. Then subscribe, if you like what you see.

If you write early to the underwriter and to members of the selling group with, let us say, an order (or indication of interest) for one hundred shares to each, some of your requests will be rejected but some allotments may be made. Thus, after subscribing for perhaps a total of five hundred shares, you may wind up getting 125. Then you may be so disgusted at getting so few shares allotted that you will sell them all out at a premium at once, taking a quick profit. If you really believe in the new issue and its long-term prospects for rising earnings, you may try to buy some more in the OTC market. While the issue came out at $7 a share you may have to pay, say, $12 for additional shares. If in addition to your 125 shares at $7, you acquire 75 more to "round out" at $12, you'll end up with 200 shares at an average price of $8.20.

When to Sell?

Next you make a decision about the stock—whether to keep it if it behaves well or to sell as and when it reaches a price that will satisfy you—$20, $25, or $30. Here's where you're all on your own. The price that Zilchboom Electronics sells at within a month after the offering may be the best price it will reach for years. On the other hand, you may, by good fortune, have come upon another Downe Communications, which rose in a year from $10 to $130, or a Four Seasons Nursing Centers, which advanced from $11 to $140 and split two-for-one. Both plummeted in 1970, and Four Seasons filed in bankruptcy!

Many speculators use "operation bait back"; that is, they sell half of a speculative stock after it has more than doubled in price, pay the capital gains tax, and keep the other half indefinitely "free and clear" and costing nothing.

Advantages of New Issues

The advantage of new issues is that they often provide an early entry into exciting new companies or industries—maybe another Xerox. In the period 1967–1969 stocks were offered for the first time in employment agencies, health spas, pet shops, public relations companies, broker/dealer firms, weight watching, tennis courts, art galleries, computer schools (over forty companies in computer service, leasing, or software), another forty nursing homes, a couple of dozen food chains, many linked to celebrities (Minnie Pearl's Fried Chicken, Mickey Mantle's Country Cooking, Al Hirt's Sandwich Shop, Broadway Joe's), pizza palaces, seafood companies, mortgage companies, cattle and horse raising enterprises. All these areas were not publicly available to investors in marketable securities a decade ago.

Probably no investor should confine his purchases to new issues; but to leaven and diversify speculative holdings, and to invest in exciting and possibly highly profitable new companies and industries, your only port of entry may be in new issues.

Criteria

It is not easy to inform yourself about so many situations. Accordingly, you may prefer to concentrate your attention on just one or two new industries with attractive potentials, such as leasing companies in 1966–1968, mobile homes in 1968–1969, convalescent centers and hamburgers and fried chicken in 1967–1968. Had you selected the budding leaders in these groups with proper timing, you would have encountered great gains. In any event, you'll need to get a prospectus first, and you can sometimes get a lot of information by writing directly to the company.

What to Look For

As you read the prospectus look to see how much money is being raised and what the money will be spent for, review the past earnings record (if any) and the percentage of equity retained by management, and learn all you can about the men who will run the company. What is their education? Were they successful before starting the new company? Is there a balanced team of management? Just a great inventor, a hotshot salesman, a genius at cost accounting, or a whiz at promotion is not enough.

Make sure that the money raised is enough to stake the company to two years' operation even at no profit. The number-one cause of demise is poor management, and the number-two cause of failure is money running out. It's much better for young companies to lease their quarters than to tie up a lot of dough, needed for working capital, in ownership of a bright new plant which may be a specialized white elephant if it has to be sold under pressure later.

Finally, appraise the enterprise in relation to the market it serves and as a potential money maker. Can it earn 15 per cent net on its invested capital in two years' time? Can its profits be reasonably expected to grow at the rate of 15 per cent a year compounded at the end of two years? If not, you may be investing in "pie in the sky," and both your patience and your investment will become exhausted. The odds against a new issue becoming another Syntex, Xerox, Avon Products, University Computing, or Clinton Oil are roughly 200 to 1.

While the foregoing research is suggested for the evaluation of newcomers, much of your work may be done for you if you get on the list and become a favored customer of some of the twenty underwriting firms that have had outstanding records in bringing out new issues and in following them thereafter so that their clients gain stature, their stocks get listed and split, and maybe a merger later on will generate

great profit to original subscribers. There are also a few mutual funds that have specialized in making early investments in hopeful young companies. These, too, should be looked into.

For those more conservative souls who like investments of seasoned quality and dividend durability, new issues are too uncertain and risky, and may make for sleepless nights. But for those bold souls, willing to allocate dollars that they can afford to lose outright, the search for lively and zestful new issues can provide a lot of fun and excitement. It will give you the pioneer sense of being a sort of Daniel Boone in the market. And if you latch onto a winner such as Control Data or Equity Funding, think how you can impress your friends by your display of market sagacity!

The chart below shows some representative new issues selected at random in 1969.

Issue	Offering Date	Subscription Price	June 29, 1969 Bid Price
Acquitaine of Canada	June 5	23½	18½
Tropicana Products	February 13	25	26¾
Coachman Industries	February 19	8⅞	16¾
Computer College of Technology	April 21	5	5
Convalariums of America	April 16	10	15
Earth Resources	February 18	13½	12
Wetson's Corporation	May 7	11	10½
Four Seasons Equity	February 28	11	25½
Hospital Corporation of America	March 4	18	29¼
Anthony Kane, Inc.	June 10	8	12¼
Mister Steak, Inc.	April 22	15	21½
Park Wood Homes	May 8	15	20

There were relatively few dazzling performers among new issues in 1969; in fact four out of five declined below their offering prices.

CHAPTER IX

Money Stocks

THERE is a whole group of stocks, unconnected with the production of goods or general services, that can best be classed as "money stocks." This broad category includes all of those companies whose business is devoted to money transactions and financial services. There are, for example, about fourteen thousand commercial banks in the United States accepting deposits, making loans, transferring funds, and performing trust functions. All the equities in these banks are money stocks.

Similarly, savings and loan associations with publicly held capital shares are money stocks. So are shares in personal loan companies and mortgage lending companies. And so, of course, are all of our nonmutual insurance institutions—life, accident, fire, casualty, and marine. These insurers take in money in the form of premiums, interest, and dividends, and dish it out in settlements of loss claims. Some of the finest long-term investments, the oldest companies, with the longest dividend records in America, are in this money stock sector.

Bank Stocks

With the exception of mutual savings banks in seventeen states that have no negotiable stock outstanding, bank stocks are traded in all fifty states. Operating banks, such as First National City Bank, Bank of New York, First National Bank

of Boston, Baltimore Trust Company, Girard Trust Company in Philadelphia, and Wells Fargo Bank in San Francisco, have all paid dividends for a hundred years or more.

Good bank stocks are cherished blue chips in the conservative portfolios of the rich and of endowed institutions. Banks are uniquely equipped to make money under almost every conceivable set of economic conditions, except deep depressions, when people can't pay their debts. With paid-in capital supplemented by occasional capital additions through rights' offerings, large surpluses built up from retained earnings over many years, and huge sums of money on deposit, banks make loans at rates substantially above what the money costs them. After payment of all expenses of operation, they glean net profits with great regularity. In a representative commercial bank, deposits will amount to ten or twelve times capital funds; cash dividends will equal roughly 55 per cent of net earnings; and shares, depending on their quality, stature, and market endorsement, will generally trade at between ten and twenty times net earnings.

Average annual increases in net earnings in the 1960 decade were about 4 per cent. In 1968 and 1969, many smartly managed metropolitan banks increased their profits at rates of 8 to 14 per cent each year, indicating that certain bank shares have definite "growth" characteristics.

In 1969 evaluation of bank stocks required a different approach, because of a new set of accounting rules promulgated by regulatory agencies. Before 1969, commercial banks customarily reported "net operating income" in a given year without inclusion of provisions for possible loan losses, or gains or losses from security transactions. Now (from 1969 on), the official accounting rules require inclusion of loan losses, if any, and any realized gains or losses from investment portfolio transactions to arrive at net income. Thus, current bank earnings' reports are not directly comparable with those of earlier years. This is quite confusing to investors.

Many top bank stock analysts contend that the key figure to watch is after-tax earnings, before and excluding security transactions (which may vary widely in profitability from year to year). They call this figure the new net operating income. To complicate the techniques of evaluation further, banks are permitted to average their loan losses over a five-year period (thus hiding the actual loss figure for a particular year).

For years bank stocks have traded in the OTC market. Bank managements, for a variety of reasons, preferred not to list shares on the exchanges, some feeling that if their shares were listed and gyrated widely in market price, depositors and loan customers might become apprehensive. In recent years, however, management viewpoints have changed and many issues—Bank of California, Bank of New York, Bankers Trust, Chase Manhattan, First National City, and others—have become listed on the NYSE. Even so, most of the shares in the fourteen thousand commercial banks still trade over the counter.

Newer Developments

Because operating banks are regulated by various state and federal agencies, they have been restricted in the kinds of business they could handle. To achieve greater flexibility, and to broaden bases of earning power, many banks have taken advantage of a ruling whereby they may become "one-bank" holding companies. This means that a specific holding company may own not less than 25 per cent (but more frequently, most or all) of the stock of one (and only one) operating bank, and interests in nonbanking companies as well. Usually, the companies making up the one-bank holding company are finance-oriented: mortgage, insurance, real estate, or mutual fund corporations. In any event, these banking composites have caught on. Charter of New York, the holding company

for Irving Trust Company, and Chemical New York, owning Chemical New York Bank and Trust, are examples of this new trend.

Sometimes acquisition is the other way around, as in the case of the CIT Financial Corporation, which bought Meadowbrook National Bank, and Standard Prudential Corporation, which acquired Sterling National Bank of New York.

Significant bank developments in recent years are the proliferation of suburban branches; accent on personal, installment, and mortgage loans; and the enlargement of capital funds through sales of senior securities such as debentures or preferred stocks. These issues increase the leverage of bank stocks, and have resulted in greater popularity of bank equities.

Investment in bank shares is usually made by the more conservative individuals and institutions. Bank stocks are seldom "hot" or go-go performers, unless a merger is in the offing. They are rather esteemed for the durability of their dividends and for their recession-resistant qualities. Moreover, dozens of banks have increased their cash dividends quite regularly, and managements have been most careful not to increase dividends unless they could be maintained at the higher rates quite indefinitely.

The criteria for selection of bank stocks are (1) percentage of net deposits at work on loan (should be upward of 75 per cent), (2) rate of growth in deposits and percentage earned on capital funds. Banks are well protected against adversity. Their deposits are insured, and they prosper, whether interest rates are high or low, by the margins between the wholesale costs of money and the rates charged on loans.

Savings and Loan Associations

In most states, savings and loan associations are operated exclusively as mutual institutions much like mutual savings

banks. In several western states, however, and especially in California, many savings and loan companies (and holding companies) are publicly owned, and their shares have enjoyed considerable popularity since they first became available in quantity in 1961. At that time, they were accorded glamour ratings with P/E multiples of 35 and higher.

The savings and loan company is a unique institution designed primarily to provide real estate mortgage money. In California, where there are no mutual savings banks, savings and loans in the 1960 decade provided roughly 75 per cent of all the mortgage financing for home building and housing. During that ten-year period California associations attracted hundreds of millions of deposit dollars from Eastern savers, because they offered substantially higher interest rates than did Eastern thrift institutions. In turn, the California savings and loan banks were able to lend these funds out on mortgages, at interest rates often two full percentage points above the rates paid to depositors.

They profited both by this rate differential and by fees and service charges connected with the making of loans. Fees vary somewhat with the quality of the loan, and construction loans always call for higher interest rates and fees than do standard loans on well-situated and well-built suburban houses and high-rise structures. While home building was active and realty prices were rising, savings and loans had a field day. Between 1964 and 1966, however, money on deposit was harder to come by, real estate prices flattened or declined, and several institutions had problems with defaults. These defaults in interest or principal payments (or both) are called scheduled items, and in 1965 some associations had as much as 11 per cent of their assets in this category, including repossessed properties that had to be refinanced or resold. Earnings fell off, liquidity dried up, and some savings and loan companies needed help to stay solvent (thrift accounts are guaranteed by the Federal Savings and Loan Insurance Cor-

poration, a government agency). The prices of representative savings and loan issues fell, and not till 1968–1969 did a strong resurgence in market quotations occur.

Savings and loan associations have a special kind of status, whereby they need pay federal taxes on only 60 per cent of their earnings; payment is suspended indefinitely on the tax liability incurred on the remaining 40 per cent until (1) earnings may be distributed to stockholders, or (2) the institution is liquidated. Some analysts feel that, of savings and loan companies reporting thus, true earnings are overstated, and they prefer to use the full tax liability in their evaluation of savings and loan equities.

Representative savings and loan companies are Financial Federation, Great Western Financial, San Diego Imperial, Gibraltar and First Charter, all listed on the NYSE. Savings and loan shares are possibly the most volatile of all money stocks, and are more attractive to traders than to those who invest for dividends and long-term growth.

Life Insurance Stocks

Life insurance shares were extremely popular investments in the 1950's and the early 1960's. Gains in this group between 1954 and 1963 far outpaced gains in the Dow-Jones Industrial Average. Ten of the best stocks in this period showed average gains in market value of over 400 per cent. From April, 1964, to April, 1967, life stocks were in a downspin. Moody's Life Stock Average, which stood at 129 on the 1964 date, eroded to 71 in 1967, and then moved back to around 108 in November, 1969.

Life stocks, although fine capital gainers over any decade in this century, have never attracted wide investor popularity for five reasons: (1) the stocks of all (1,400) stock-operating companies are traded in the OTC market; (2) many companies have small capitalizations with limited floating supplies,

and inactive and wide trading markets, making it difficult to buy or sell in any volume; (3) the accounting methods are totally different from those of other publicly held corporations; (4) cash dividends are traditionally meager—usually about 15 to 20 per cent of gains from operations; (5) the business is not understood.

Actually, the business is not all that complicated. Life insurance companies collect premiums against possible liability for payment in event of the death of the insured. The death of any single individual cannot be predicted, but by the use of mortality experience tables and the computerized skills of trained actuaries, it is possible to calculate with great accuracy the number of persons per thousand in any age group who will die in a single year. Since the probability of death increases with age, each later year requires a higher rate for new applicants. At age twenty, you may get a "whole" life contract at $18 per thousand, yet the same coverage bought at age sixty might cost $54 per thousand. (Women always command lower rates because, on the average, they live five years longer.)

Life insurance is divided into three broad classifications: permanent contracts, term, and group. "Permanent" life includes those policies that incorporate cash values—ordinary or whole life; policies that endow (are paid in full) at the end of a certain number of years (ten to fifteen or twenty, usually); and limited payment life, where the premiums required for lifetime protection are paid up within a term of years, most often twenty. In term insurance, you pay a certain fixed rate for five or ten years, and then a higher rate if you wish protection after that. Term has no cash value—you buy pure insurance. Group insurance is generally the term variety, but applied over a number of people, making possible a somewhat lower unit rate per subscriber.

Life insurance companies in their reports tend to group all these different categories together under "life insurance in

force." This is misleading, however, because permanent (cash-value) insurance is far more profitable to companies over the years than term or group. Why? Because in cash-value insurance, policyholders are deliberately overcharged for the early years of coverage, to permit the charging of a level unchanged premium rate during the life of the assured and to provide for building annual reserves which, invested at compound interest, generate the funds to provide the higher premiums needed for per-$1,000 of protection in later years (if the policyholder is still alive). Customarily, these reserve funds are invested at 3 per cent annual interest compounded and guaranteed.

The life insurance company, however, can invest its money at an average rate of over 5 per cent. This differential is important, because the stockholders of a life company receive as earnings this differential in rates ($5\% - 3\% = 2\%$), after expenses. To illustrate, a life company with $100 million in reserves earns $2 million a year for its stockholders ($2\% \times$ $100 million). To this is added the same return (assumed to be 5 per cent), on $10 million of capital and surplus funds, generating earnings of $500,000. Add the $2 million and the $500,000, and the total is $2.5 million, or $2.50 per share on (an assumed) 1 million shares of capital stock.

The company also has one other source of earnings—mortality results. If it had estimated death claims in a given year of $2 million, but actually paid out only $1.5 million, another $500,000 wiuld be contributed to earnings. This total of $3 million, minus all operating costs and taxes, would produce the net profits, or more accurately, net gains from operations, for the year selected.

You need to consider just one more fact in your perception of life company earnings. All of the expenses attached to the acquisition of new business in any year must be charged against that year. This provision tends to penalize annual earnings, particularly in those companies aggressively adding new business. Each $1 in premiums on newly written busi-

ness may have acquisition costs—advertising, sales commissions, overhead, clerical services, medical inspection fees, of $1.20. The difference or overage ($.20 in this case), is charged in full against current earnings. Yet premium dollars on the books may be collected quite indefinitely (in the average case, for at least nine ensuing years), with practically no costs incidental to collection.

Most analysts think this procedure of loading all acquisition costs against the first year penalizes current earnings and creates significant hidden long-term profits. For some years, therefore, analysts have added, to total gains from operations in a given year, $20 per thousand for permanent life insurance sold, $7.50 for term, and $3 for group. This gives some recognition, in the year of origination, to the flow of premium income set in motion for many future years.

The criteria for selection of life stocks relate to: (1) the annual volume of premium income, (2) favorable mortality experience, (3) return on invested funds, (4) percentage of business in "permanent" insurance, (5) lapse rate (percentage of insured who discontinue their insurance each year—the lower the lapse rate, the better the company, and a figure below 8 per cent is desirable). Operating expenses of life companies are notably low—averaging only about 16 per cent of total income. Tax treatment is also favorable, amounting under a special formula to roughly 25 per cent or less on applicable total revenues.

Other factors favoring life insurance are the high rate of American family formations, a majority of the population below age thirty-four (the major demand sector for life insurance), and steadily greater family needs for life coverage, dictated by higher standards of living and rising costs because of inflation. Actual coverage was about fifteen thousand dollars per insured family in 1969.

An important trend in life insurance is toward holding companies. There are a number of these to choose from:

Transamerica (owning Occidental Petroleum), Richmond Corporation (Life of Virginia), CNA Financial (Continental Assurance), U.S. Life (United States Life Insurance Company), Lincoln Corporation (Lincoln National Life), Travelers Corporation (Travelers Life Insurance Company), Aetna Life and Casualty, National Liberty Corporation (National Liberty Life Insurance Company), INA Corporation (Life Insurance Company of North America). These holding companies have attracted individual and institutional investors, and most are listed on the NYSE.

The holding company permits consolidating of accounting procedures, computerization report-in of earnings on "non-admitted assets," and the offering of diversified coverage—life, motor, home, accident, and liability insurance with premium payments to just one company. Over 175 life companies have further expanded their call on family thrift dollars by acquiring or sponsoring and offering mutual funds.

Life insurance is a major growth industry; its earnings on the average should expand at a rate of 8 per cent annually compounded in the 1970's. Certain companies should lead the pack. National Liberty Life Insurance, Fidelity Union Life, United Service Life, Peninsular Life, Republic National, Connecticut General, and Monumental Corporation. Fidelity Union has majored in selling life insurance to those in college, and has done exceedingly well. In accident and health, akin to life insurance, Combined Insurance of Chicago and National Liberty Corporation of Valley Forge, Pennsylvania, have been outstanding performers, growing faster than 20 per cent annually.

Fire and Casualty Companies

A fourth sector of money stocks is the fire and casualty group. Companies here include some of the oldest financial institutions in America, and several have paid continuous cash

dividends for seventy-five years or more. The prediction of fire casualty risks is by no means as dependable as are the mortality projections of life companies. It seems that in recent years we have had more hurricanes and tornadoes, and more destructive ones, than earlier in the century. Arson, looting, and mob violence and other crimes against property are on the increase, as are motor accidents, especially in the below-twenty-five age category, and the staggering totals of personal liability and property damage claims they have created have reduced or destroyed the profitability of automotive underwriting for most companies.

Accordingly, casualty company shares have not been especially clamored for in the marketplace. The margins of profits they generated from underwriting early in this century have not been duplicated during the past fifteen years. The average company is lucky if it breaks even on underwriting, and the earnings for stockholders have been derived in recent years almost entirely from income and gains from investment portfolios. A fire or casualty company applies its premiums against (1) reserves, and (2) costs of operation and management.

The productive and rewarding investment of reserves, and of company capital and surplus funds in bonds, stocks, and mortgages, is the basic ingredient of current profits. Moreover, because insurance portfolios are heavily invested in common stocks, casualty shares tend to fluctuate in line with stock market averages.

In evaluation of these companies, there are two key ratios to watch: the expense ratio and the loss ratio. The expense ratio is the relationship of all expenses incurred in placing and handling new business, to the annual premium volume it generates. The loss ratio expresses the relationship (in percentages) of loss claims paid, and expenses (mostly legal) connected with their settlements, to premium income for the year. If this ratio is, say, 105 per cent, then the company has lost money on its underwriting. There is always the expecta-

tion that by increase in premiums and good fortune in the incidence of storm or accident experience, companies may be able again to produce significant profits from the specific business for which they were founded—underwriting.

Insurance companies are under regulation of insurance commissioners in each state, and applications for increased rates must be made to, and approved by, commissioners before they become effective. Requests for rate changes are related, usually, to loss experience over a preceding five-year period, so there is a time lag before rates become effective, and when they are, they may not be high enough.

The trend in fire and casualty companies, as in all other "money" companies, is toward merger and multiple-line endeavor, to reduce unit sales costs, increase operating efficiency, and offer a package of financial services to existing clients and new ones solicited. More and more sales are being made wholesale—to groups of people in specific companies, industries, or professions. This cuts down selling costs, rapidly expands business volumes, and opens doors to supplementary sales.

The outstanding casualty companies would include Aetna, Travelers Continental Corp., CNA Financial, INA Corporation, Mercury Corporation, Government Employees Casualty, Nationwide, The St. Paul Companies, Hartford Fire, Hartford Steamboiler, and Sears Roebuck, through its Allstate division. Investment preference tends definitely toward the larger companies. Many smaller companies offering cut-rate policies have developed underwriting problems and either merged or disappeared, and individuals generally anticipate prompter and more satisfactory claim handling by larger companies.

Personal Loans

Finally, there are quite a few money stocks among those companies offering personal loans. While most of this business

is handled by commercial banks, there are sizable companies, such as Household Finance and Beneficial Finance Company, whose stocks have paid dividends for years, been split with some frequency, and increased in market value by several hundred per cent, in the past twenty years. The long-range outlook for such companies continues good, because over one-third of our population is continuously in debt. Personal finance companies make speedly loans with little red tape to many individuals that commercial banks might not find acceptable.

Money stocks deserve representation in most balanced long-term investment portfolios. They have accounted well for themselves over the years, and stock companies have prospered, even in sectors where they compete heavily with substantial mutual companies (as in life, where 55 per cent of the business is done by mutuals), casualty insurance, and the savings and loan industry. Some of the smartest brains in America are at the helms of leading money-oriented companies.

CHAPTER X

Transportation Stocks

TRANSPORTATION in the 1970's will be far different from any earlier decade. On January 1, 1970, the renowned Dow-Jones Railroad Average, made up since its inception of the shares of twenty major railroads, was substantially modified, and its name changed to Transportation Index. The number of issues represented (twenty) remains the same, but nine old standbys were dropped and replaced by trucking and airline companies. The new list is composed of the following twenty, with the first eleven entries holdovers.

Transportation Index

1. Canadian Pacific Railway
2. Great Northern Railway
3. Louisville & Nashville Railroad
4. Norfolk & Western Railway
5. Penn Central Company
6. St. Louis San Francisco Railway
7. Santa Fe Industries
8. Seaboard Coastline Railroad
9. Southern Pacific Company
10. Southern Railway
11. Union Pacific Corporation
12. American Airlines
13. Eastern Airlines
14. Northwest Airlines

15. Pan American World Airways
16. Trans World Airlines
17. UAL, Inc. (holding company for United Air Lines)
18. Consolidated Freightways
19. Pacific Intermountain Express
20. United States Freight Co.

The old Dow-Jones Rail Average was first compiled in 1896, when rails were the main movers of people and goods. Even as late as 1950, the rails carried 62 per cent of all intercity freight, on a ton-mileage basis. By 1968 that percentage had significantly declined to 41 per cent, with truckers carrying 22 per cent of the freight. During the same 18-year period, the percentage of intercity passengers carried had declined, on a passenger-mile basis, from 10 to 1.2 per cent.

The extensive changes made in the composition of the index and in its name thus seem most logical. They reflect the greatly altered pattern of commercial transportation in America. In fact, one might have thought that Greyhound Corporation should have been included to balance the list and give representation to the rising volume of intercity bus travel.

Railroads

In the 1920's a representative portfolio of seasoned common stocks would most certainly have included two or three railroad issues—most probably, Union Pacific, Atchison, Pennsylvania, or Northern Pacific. These stocks had, in those days, the popular acceptance that IBM, Texaco, or American Home Products now enjoys. "Rails" are no longer indispensable in a blue chip portfolio, and most of those stocks that are still in the top quality group have become holding companies and diversified into other fields. Equities in this category are far more esteemed for their investment earnings, land holdings, and relatively high cash dividends, than for their earnings from railway operations.

Selected Issues

As an across-the-board railway equity, few have more long-term attraction than Canadian Pacific, which operates rail lines across Canada, a major airline, shipping companies, hotels, and motels. Canadian Pacific is also a vast holder of urban and undeveloped real estate and has a huge stake in Canadian oil, timber, and minerals.

Of the American rails, the elite is still Union Pacific, also replete with "outside" investments, immensely valuable land and oil holdings, and an unbroken dividend record going back to 1900.

Seaboard Coastline Railroad, merged in 1967, has consolidated its operations and developed solid earning power from its north-south freight volume (50 per cent from Florida) and benefited from the hundreds of new industries that, in the 1960 decade, located along its rights-of-way. SCL, too, has some highly valuable real estate. Its crack train, "The Florida Special," is probably the last of the deluxe "limiteds" in the United States to continue to run at a profit.

Southern Railway is acclaimed for its highly efficient operation and aggressive business solicitation. Between 1963 and 1970, it increased its freight traffic by over 60 per cent.

Southern Pacific has been a good earner for decades; and Northern Pacific has done well with its railway, and very well with its Williston Basin oil lands.

Nowhere have railroads had such a hard time as in New England. The Rutland Railroad went out of business after accumulating over $300 a share in unpaid preferred dividends! The New Haven was "pulmotored" by Penn Central, and the Boston and Maine groaned under deficits for years. Bangor and Aristook found shelter in Punta Corporation.

In the recommendations for the year ahead, which six major brokerage houses distributed in January, 1970, not a single railroad share was included. This is not to say that

you, as a long-term investor, should not consider rail shares, but it surely documents the fact that rails are no longer highly popular investments. Those analysts, institutions, and individuals who take a constructive view of rail equities are accenting the long-range value of their real estate in an inflationary economy and the possible upthrust in earnings from diverse investments, as in the case of Penn Central's holdings in Great Southwest Corporation, and in Madison Square Garden Corporation. Our rail preference is still Canadian Pacific. (Penn Central filed under Section 77 of the Bankruptcy Act, in May, 1970.)

Air Transport Lines

In the postwar era, the airline has intermittently reflected growth, glamour, and gloom. In 1946, airline shares soared on the strength of the new popularity of air travel, the opening up of strategic new routes, and fleets of larger, faster, albeit "prop" planes. In a few years, market glamour of the air transports had faded. It was hard to sustain high-ratio seat occupancy, competition became intense, and earnings flagged.

Then along in the 1950's came the jet. "Prop" fleets became old hat, and airlines vied with each other in the purchase (and financing with long-term debt) of sleek jets. These new birds were far larger, more efficient to run, and capable (because of their speed) of making far more round trips, carrying far more people, than the obsolescent propeller planes. The lines, especially those with long routes such as United, Northwest, and American, prospered, and their stocks were again in high favor. In 1965 six major airline stocks listed on the NYSE doubled (or more) in price.

Then a new round of problems appeared: rate cutting (special fares for families, college kids, and others, on off-peak weekday runs), the clamor of the airline unions for steep

wage and salary boosts, pressure to install in-flight movies, new competitive route allocations by the Civil Aeronautics Authority on hitherto high-profit "long hauls," public grumbling about noise and air pollution, and finally, looming ahead, the impending cost of the third generation of postwar transports—the huge and superswift Boeing 747's and airbuses.

Pan Am led off in January, 1970, with the first commercial flight of the commodious 747. Captains of these aerial behemoths earn over sixty thousand dollars a year.

All of this had a disquieting effect on the market for airline equities. In 1969–1970 they reached their lows for several years, with American falling to 15 and Northwest, long the best earner in the business, also to 14⅜. In January, 1970, the airlines were given (by the CAA) three years in which to reduce or eliminate the pollution from jet streams. This saddled the industry with a substantial new element of cost, without any compensating offset in revenues.

The foregoing capsuled account of twenty-five years of uneven progress in the air transport industry suggests some of the reasons for volatility of share quotations. It also points up the rewarding trading swings possible in these issues for speculators who are perceptive of coming trends and nimble enough to get out near the tops of the "up" cycles.

A number of airline analysts feel that shares in this group, if acquired within the bottom third of their previous year's trading ranges, are likely to create worthwhile market gains. Long-range preference among portfolio specialists would be given to those companies with the best managements, most efficient fleets and cost controls, strong financial positions, and a preponderance of high-traffic long-mileage routes.

Generally favored for the long term are American Airlines, United Air Lines, Inc. (with a reputation for top maintenance), Continental, and Northwest. With patience and some perception of the almost rhythmic ebbs and flows of market popularity in air equities over the years, investment in trunk-

line issues may prove rewarding. The industry is essential, its overall traffic (and especially air freight) is expanding at a rate of 8 to 10 per cent annually, and substantial new capital investment in jumbo planes will surely be required. In no other type of transportation is ultramodern equipment more *de rigueur*.

Trucking

With the tremendous expansion of our national superhighway system since the end of World War II, there has occurred a boom in the trucking industry of massive proportions. The trend has been toward larger trucks and trailer units (with tandems now permitted in many states), specialized equipment to handle such diverse cargoes as household furniture, bulk cement, LP (liquid propane) gas, volatile chemicals, citrus fruits, aggregates, containers, and even race horses.

As with airlines, the trucking lines that make the most money are the long-haul ones. Accordingly, there has been a steady trend toward consolidation of smaller regional companies into large lines licensed to operate in many states. Even so, there were fifteen thousand trucking companies with ICC licenses in 1970. Bigness alone makes possible numerous operating advantages: central terminals, central purchasing, larger fleet discounts, uniform maintenance procedures, fleet insurance coverage, computerized billing and accounting, and the capacity to handle the business of very large corporate customers.

Hundreds of mergers took place in this industry in the 1960 decade, and some of the resulting companies have attained major stature. Consolidated Freightways, a nationwide organization, burgeoned under the presidency of William White, a thoroughly converted former rail executive (vice-president of Delaware, Lackawanna and Western Railroad

before he went west and became a trucker). As mentioned earlier, Consolidated is on the Transportation Index.

Other trucking companies of stature are Associated Transport, Leaseway Transportation (doing a good slice of General Motors' business), North American Van Lines (renowned for home moving), Bekins Transportation, and St. Johnsbury Trucking.

Greyhound Corporation should also be considered in the trucking category, because in addition to being the largest intercity passenger carrier, it operates Package Express, using bus space not required by passenger baggage, and Greyhound Van Lines. Greyhound also owns the Prophet Company, a caterer, and Hornes Enterprises, a chain of candy and novelty shops.

The transportation industry is a major investment segment, so vested with a public interest that each grouping is under a national regulatory body—the rails and trucking companies under the Interstate Commerce Commission and the airlines under the Civil Aeronautics Authority. There is also considerable competition within all three groups, though least among the rail carriers.

Financial analysis of securities in these respective groups is not difficult, since accounting procedures are quite uniform. Nearly all transportation companies are quite leveraged by long-term debt. Depreciation in trucking and airlines generates a high cash flow, and profit margins among the leaders are fairly uniform. In all three, the best companies will usually be found to be those which maintain their equipment best. A sloppy truck often connotes sloppy earning power; a sloppy airplane may wind up in a crash landing. (I shouldn't knock sloppy railroad cars too much, because I've been commuting on the Long Island Railroad for thirty-eight years.) Labor costs are high and most companies have an operating ratio of around 95 per cent.

CHAPTER XI

Service Industries

OUR gross national product is the sum of all the goods and services we provide in the nation each year. Quite recently the service sector has become more important in the total than production (goods). This is a phenomenon of great significance to investors, and has brought to the forefront a whole series of major industries that have created great gains and substantial fortunes for early and perceptive share buyers. Opportunities for gainful investment in service companies today are myriad, and accordingly, a review of this field is essential in any treatise on common stocks.

In the fields of law, medicine, dentistry, architecture, and stock brokerage it has been the tradition, until quite recently, to provide services individually, or through partnerships or group associations. Now even these honored professions are moving toward incorporation, and the next logical step will be the public offering of their corporate securities.

The service groups that have already gone public are impressive in size, scope, and earning power: laundries, advertising, employment, real estate and insurance agencies, career and vocational schools, funeral and beauty parlors, travel bureaus, nursing and convalescent homes, protection and security service, management and vocational consultants, tax, weight watching, motor inspections and checkups, parking garages, engineering and testing organizations, restaurants

and catering services, dancing schools, moving companies, and office maintenance.

The growth of most of these companies has been enhanced by the consolidation of a series of small local units into a regional or national chain operation. This consolidation trend is especially noticeable in restaurants, motels (covered under leisure time), laundries, protection services, building maintenance, and employment agencies.

Employment Agencies

A decade ago this industrial sector was of no significance in the investment markets. However, a number of companies in the field went public in the 1960's, and today there are several issues of stock available whose records of growth and gain are far above average. Increases in sales and net earnings at the rate of 30 per cent and more annually have not been uncommon.

At the beginning of 1970, there were approximately 8,000 employment agencies in America, 2,000 of them operated by various government agencies and 6,000 privately run; total annual gross revenues were estimated at about $300 million. This figure is expected to reach $500 million by 1975. Hundreds of those units now privately owned will no doubt be merged, and newcomers will be franchised by the larger existing organizations.

It is estimated that one out of every five families moves each year. This has created a big business for such home moving companies as North American Van Lines and Bekins, and is significant in employment agencies serving those who change jobs and geography at the same time. Larger employment agencies have offices in several cities and exchange referrals of job openings in each metropolitan area served. The biggest market is in the $6,000 to $15,000 salary bracket, and the twenty to forty age group. The business has a built-in

growth rate, as population expands and more companies allocate to these agencies the filling of most of their personal needs.

The first employment agency to go public was General Employment Enterprises, Inc. (in 1967). This has been gaining national stature by the acquisition of a number of local agencies and by expanding its franchising operations. Other well-known organizations include Wells Management, Management Recruiters, Anthony Kane, Snelling and Snelling, and Fanning. An attractive segment of the business is temporary help, in which Manpower, Inc., Kelly Services, and Olsten are the leaders. Snelling and Snelling has the most offices and provides both permanent and temporary help. Its stock might be regarded as the quality leader in the group.

All of the companies mentioned have shares available either in the OTC market or on the AMEX. The issues should be considered primarily for their growth potentials. Dividend rates are generally low, and the practice is to retain and reinvest earnings for expansion. The field is decidedly attractive on a long-term basis, with energetic and imaginative management a major factor in company success.

Security and Protection Services

The alarming increase in trespassing, crime, and fires in the United States has created an urgent demand for viligance and protective services. These involve everything from the training and supply of uniformed guards, watchmen, and investigators, to providing water sprinkling systems, burglar alarms, electric and electronic surveillance and monitoring devices, industrial controls, and central alarm stations connected by wire with service subscribers. Here again, the tendency is definitely toward large companies and consolidation of the independents. The business is done on a fee basis, and most subscribers are on long-term renewable contracts

(two to five years). This arrangement assures a stability of earning power and good defense against a recession.

There are four major companies in the field: Pinkerton's, Inc., the largest; Burns International Detective Agency; Wackenhut Corporation, majoring in physical security and investigative service; and American District Telegraph Company, the largest factor in central station protection and alarm systems, with 110,000 service clients (as of January 1, 1970) in metropolitan centers in the United States and Canada. Wackenhut is the youngest and fastest growing company, aggressively expanding the geographical scope of its activities. In contrast with the others, Wackenhut gets the largest share of its business from the federal government. Related to this industry is Federal Sign and Signal, maker of devices for law enforcement and safety.

The industry has a good growth rate, probably between 9 and 15 per cent annually. Ahead may be expected extensive penetration of the home protection market (most revenues historically have come from corporations, banks, and the government) and major expansion abroad, where the industry is in its infancy.

Building Maintenance

There is a great deal of heavy housekeeping required in the maintenance of commercial and public buildings, institutions, and factories, and a number of companies in this field have emerged and are growing rapidly and generating excellent returns on invested capital. Services furnished include cleaning of floors, carpets, drapes, walls, toilets, and exteriors; bulb renewal; window washing; lighting, air conditioning, and elevator maintenance; waste removal; and the supplying of personnel to do all of these things.

In New York City about 90 per cent of all new office space is serviced by contract maintenance companies, and owners

and operators of large commercial buildings in other major American cities are increasingly turning to these structural housekeeping specialists.

Representative issues would include Allied Maintenance and Kinney National Services, both listed on the NYSE. In the 1960 decade, Allied Maintenance earnings increased at the rate of over 14 per cent annually compounded. The stock gained market popularity, on account of both this earnings uptrend and a series of acquisitions. Kinney is not only important in maintenance, but also operates a chain of funeral home and parking garages. Prudential Maintenance is a growing company.

Advertising Agencies

Traditionally, advertising firms have been partnerships or private companies. In the 1960's these too got the message, and several went public, creating new negotiable values and active trading markets for their equity interests. Hitherto it had been regarded as essential to keep client information, rates, and profits a secret from clients, competitors, and the public alike.

A whole series of advertising stocks are now available on the market. The biggest companies are J. Walter Thompson, Doyle Dane Bernbach, Grey Advertising, Grant Advertising, Ogilvy & Mather, International, Papert, Koenig, and (in financial advertising) Doremus. Advertising agency shares such as these are more volatile than other service-type equities, because big advertising accounts have a tendency to migrate. Earnings fabulous in one year may be heavily eroded in a later year, if a big account moves away from a medium-sized or small agency. On the other hand, some new agencies have come on the scene with special oomph and talent, grabbed accounts right and left, grown excitingly, and rewarded shareholders. In advertising, top management is vital, so seek agen-

cies that can acquire and retain accounts and deliver messages, in all media, that sell goods. Sustained future growth of the industry is indicated by rising population and incomes and by introduction of a good number of new products each year.

Food Services

Here is an explosive newer industry, stimulated by the preferences of millions for roadside dining and convenient take-home foods that eliminate home cooking and much dish-washing. Most sensational in this category is Kentucky Fried Chicken, whose shares, publicly offered at $15 in April, 1966, had grown, by splits and a fabulous upthrust in earnings, to around $300 apiece in market value by 1969. As of January, 1970, Kentucky had over 2,600 retail outlets (owned or licensed), and a smaller licensee, Gino's, had also grown at an inordinate rate. Other important entrants in this ready food field are McDonald's, Nathan's Famous, Dunkin' Donuts, Wetson's, Lum's, and a number of less well-known pancake, doughnut, beefburger, and pizza chains, some named after celebrities of sport, music, or TV.

In restaurants and packaged foods, Stouffer's is representative. Restaurant Associates also belongs in this food group. Here again, aggressive companies through their own outlets, and by aggressive expansion of franchised units, have zoomed ahead and made fortunes for their earlier stockholders. At the 1969 year end, Kentucky Fried Chicken management estimated that in six years' time more than 130 individuals had become millionaires by timely investment in Kentucky Fried Chicken common.

Convalescent and Nursing Centers

Since the inauguration of two huge federally sponsored programs, Medicare and Medicaid, to provide for the medical

needs of senior citizens, a whole new convalescent home industry has sprung up. These quite new institutions are neither hospitals nor typical nursing homes in which old folks, not in robust health, while away their sunset years. These are, rather, convalescent or nursing centers, specially designed, built, and staffed to provide in-patient care during critical periods between intensive hospital care and return to normal living.

The average convalescent home "stay" is between twenty-five and thirty days; it is financed under Medicare for the solvent, and under Medicaid for those with meager or no resources. These care centers require extensive financing, because they are costly to build. Modern units contain from 100 to 200 rooms, and are constructed at costs of $6,000 to $15,000 a bed, depending on the locality, prices of land, and regional costs of building materials and labor. Financing is generally 70 to 80 per cent in debt securities, creating leverage for common stocks. Under good management, and high occupancy, a convalescent home should generate an annual net return on equity of at least 15 per cent, or an after-tax profit of four hundred dollars or more per bed. Medicare patients are preferred to Medicaid ones in generating operating revenues, and earnings may be enhanced by extras: higher charges for deluxe private rooms, television rentals, barber and beauty shops, and the retailing of drugs and cosmetics.

The convalescent center industry has attracted both investment bankers and investors, because of its indicated growth rate, high returns on invested capital anticipated, attractive cash flow from depreciation, possible increases in realty value in an inflationary economy, and potentials for mergers. Chains of extended-care homes offer much the same operating economies as do motel or hotel chains. Before investing, investigate the quality of management, costs of buildings, and nearness of convalescent centers to major acute-care hospitals (the nearer the better, because hospitals and their accredited

doctors are the major sources of patient referral to extended-care units).

In 1968 extended care center stocks were market darlings, and many new issues rose in the market to good premiums and high earnings multiples. Because of a national shortage of these facilities in the late 1960's, tens of millions of dollars in new issues were floated, and because of the volume, there was some loss of their earlier novelty and glamour status. Today there are several fairly seasoned issues to choose from, and evaluation can be more precisely made than in earlier years, because earnings records are available. Properties not properly located, financed, or operated have not been conducive to rising stock prices, and unless a care unit can maintain an occupancy rate of 70 per cent or better, earnings are unlikely to be impressive.

Representative issues would include American Medicorp, Care Centers, Inc., Berkeley Enterprises, Intermediate Nursing Centers, Medicenters of America, and United Convalescent Hospitals. There is still a large unfilled demand for these centers, and with some nineteen million Americans now sixty-five years of age and older, a continuing and sustained earning power for selected issues is indicated. Buy the ones whose earnings are increased and in which efficient management is evidenced. In acute care, American Medical Enterprises is showing good results.

Educational Services

Millions of Americans yearn to increase their fund of knowledge, to promote interests or hobbies, or to prepare for special careers as nurses, secretaries, dental and medical assistants, computer programmers and operators, accountants, beauticians. There are several excellent companies that have devoted their efforts to these fields of learning. Some of the best known are Career Academy, Inc., International Corre-

spondence Schools, and FAS International, Inc. This last company used to be called Famous Artists. It provides home study courses for those who would be artists, playwrights, writers, or photographers. There are a dozen or more significant companies in computer training, and others for beauticians, hotel-motel management, stenography, accountancy, and so on, all with public issues of stock available.

Assorted Service Companies

In management supervision, a leader is Booz-Allen and Hamilton, Inc.; in research, Arthur D. Little, Inc. There are Arthur Murray Studios for dancing buffs; Chubb & Sons, Alexander & Alexander, and Marsh and McLennan, big in insurance brokerage; Docktor Pet Shops, a franchise chain; American Medical Enterprises, becoming a major in acute-care hospitals and the health care field generally; Automatic Data Processing, a leader in payroll processing; Computing and Software, programming specialist; Rite-Aid, health and beauty aids; H. & R. Block, preparers of income tax forms for millions; Marvin Josephson Associates, Inc., booking representatives and financial managers for TV and theatrical personalities.

The service industries are indeed the most diversified in the entire business spectrum. They represent an area of exciting growth and will include some of the most exciting stocks in the market in the 1970's. The companies we've mentioned are but a few illustrations of the opportunities in this field. There will be a lot of newcomers here too—at least two hundred new issues in 1970–1971—and a spate of mergers.

CHAPTER XII

Utilities

THERE is a major sector of public companies in the United States, long favored both by individual and institutional investors, in which business monopoly is not only allowed—but accepted, approved, and even favored. This unique economic sector is made up of public utility companies.

These companies provide four major kinds of service: electricity, gas, telephone, and water. So essential and so widely used are these services that it is clearly in the public interest that they be adequately supplied at fair prices, and expanded to meet growing demands of rising populations and regionally expanding economic activities. To illustrate, the cost of building and maintaining big electric generating stations, miles of high-tension transmission lines, hundreds of miles of distributing lines along (or under) metropolitan streets, with transformers and countless feed lines into homes, institutions, factories, and commercial buildings—the cost for all these units and for people to run them is huge.

Accordingly, large companies with high capitalizations are essential. It is obviously impractical to have two competing companies, one serving the homes and offices, say, on one side of a city avenue, and the second to supply the other side. Duplication of such costly facilities would be absurd and create far higher rates than would service supplied by a single company.

Accordingly, except for plants owned and operated by

municipalities (or a federal agency, as in the case of the Tennessee Valley Authority) most of the electric, gas, and telephone companies, and such few water companies as have not been municipally acquired, are stockholder-owned and government-regulated monopolies. Such regulation has been deemed necessary to assure that (1) the public, in the area served, gets satisfactory service at fair rates, (2) the company makes appropriate arrangements—technical, physical, and financial—to expand service as needed, (3) financing is properly arranged and there is no fraud or gross overcapitalization in publicly offered securities, and (4) the company may earn a reasonably rewarding return on invested capital (set variously at 6 to 8½ per cent) depending on the kind of utility and service and on the state served.

The actual regulation of utilities is performed by public service or power commissions in each state, and by the Federal Power Commission, as well, in interstate delivery of natural gas. In addition, the Securities and Exchange Commission has a jurisdiction over the registration and public issuance of utility securities.

Because of the monopoly nature of their business, there are four limiting factors of significance in evaluating utility securities. First, profits earned are unlikely to exceed the overall permitted rates (customarily between 6 and 6½ per cent) on total capital employed. Second, no huge surpluses of undistributed earnings are built up, lest there arise a clamor for rate reductions. Third, it has been standard practice among electric utilities to pay out, in cash dividends, about 70 per cent of the net earnings of the current year. Fourth, it is necessary for utilities to go to the market fairly frequently, to raise money needs (by selling bonds or stocks) to build additional production, supply, or distributing facilities needed to meet service needs of expanding populations and rising commercial and industrial activity. This steady need to enlarge capacity, mainly by selling debt securities, has tended to in-

hibit growth of net earnings in periods of high interest rates; there has also been a quite uninterrupted rise in construction costs of new plants or additions to old ones.

Because of these special characteristics of utilities, their common stocks are bought primarily because of (1) the dependability of dividend payments from a recession-resistant type of business, (2) the expectation of increased dividends (several electric companies increased their dividends on at least five occasions in the 1960 decade), (3) occasional valuable rights to buy new securities and declarations of stock dividends, and (4) satisfactory, if unspectacular, market performance. Utilities are seldom wide swingers, but at the same time, they are less likely to "fall out of bed" in bear markets.

Electric Utilities

By far the largest segment of the utility sector is made up of electric service companies (in some cities, gas and electric services are combined in a single monopoly, as Consolidated Edison, Pacific Gas & Electric, and Baltimore Gas, Light and Power). Electric service companies, for the most part, serve within single states—although there are several holdings companies that supply interstate service, such as American Electric Power, serving the Appalachian area, and Northeast Utilities, serving several New England states.

Capitalizations of major companies are fairly uniform and reasonably leveraged by capital structures averaging (1969) approximately 55 per cent in long-term debt securities, 10 per cent in preferred stock, and 35 per cent in common. Price/earning (P/E) ratios in the 1960's averaged about 15½, but dipped to around 12 in 1969, as interest rates reached the highest levels in a hundred years and interest charges on new flotations modified the rise of earnings to stockholders. The time to market electric utility common stocks is when price/earning multiples are high, and that

condition did not prevail in 1969. Considerably greater use of convertible securities may be expected in coming years.

In a bond market where AA and AAA utility mortgage bonds yield above 8 per cent, older investors, who are more dependent on income, may find such issues suitable for purchase and retention. Those individuals building long-range growth-oriented portfolios, however, may want to include a modest percentage in selected electric utilities, particularly those in the faster growing sections of the country. These areas are the Far West, the Southeast, and the Southwestern states.

Consideration should also be given to the record of each company with respect to cost controls—to whether generating stations are fueled by coal, oil, natural gas, or uranium. The latter two are more favored on anti-pollution grounds, although lowest operating costs may be found among the coal burners. The attitudes of the various state commissions toward rate increases, and appropriate percentage returns on invested capital, are important. It would appear that the most responsive commissions are in those states where demand for electricity is increasing most rapidly, with consequent need for heavy annual plant additions. For depression resistance, those companies with a high percentage of residential customers are be to preferred.

The growth rate in electric utility sales in the 1970's is expected to be in the order of 7 per cent annually. Favored companies include Virginia Electric & Power, Texas Utilities, Middle South Utilities, Florida Power and Light, Carolina Power and Light, Oklahoma Gas and Electric, Arizona Public Service, Public Service of New Mexico, Pacific Gas & Electric, Portland General Electric, Central Hudson Gas & Electric, Puget Sound Power and Light, Public Service Company of Colorado. The growth factor is usually evidenced by above average P/E ratios (Florida Power and Light and Texas Utilities). Higher yields and slower growth generally are reflected in lower P/E ratios.

A special group of companies was favored in the 1960 decade because portions of their dividends were not subject to taxation. This was due to a treatment of depreciation for tax purposes, differing from the formula used in reporting to stockholders. Under the tax law, dividends paid in excess of reported net earnings are considered a return of capital, and not taxable currently. In 1969, dividends of the following companies were 40 per cent, or more, nontaxable: Arizona Public Service, Atlantic City Electric, Niagara Mohawk, Union Electric, Portland General Electric, Northeast Utilities. Puget Sound, Rochester Gas and Electric, and Consolidated Edison dividends were 100 per cent nontaxable. These benefits, however, under the Tax Reform Act of 1969, will be eliminated by the end of 1972.

Gas Utilities

Natural gas has become a most important fuel and now accounts for about one-third of our total energy requirements. Gas got its big impetus in World War II when there was concern about overseas deliveries of oil to America, and huge pipelines were built to transport gas from rich producing fields in the Southwest to the vast industrial markets of the eastern seaboard. In due course, pipelined gas was extended into almost every state. Whereas, early in the century, gas (principally used for home cooking and lighting) was manufactured locally, today nearly all supplies are of the natural variety. It is a clean, efficient fuel with the least pollutant effects of all the hydrocarbon fuels—so much so that motor vehicles are using it more and more.

The gas industry may be divided into three general categories: the producers (many oil companies and such independents as Hugoton Production), the pipelines, and the consumer distribution companies. The producers are not generally to be classed as utilities, but when they sell their gas in inter-

state commerce, they do come under the jurisdiction (under the 1954 Phillips decision of the Supreme Court) of the Federal Power Commission.

The Pipelines

These are utility companies regulated under the Federal Power Commission. Many are very large companies. There are a number of companies that combine production, pipelines, and distribution all under one roof—Northern Natural Gas, Columbia Gas, Oklahoma Natural Gas, and others.

Among pipeline companies, regulation covers rates charged to customers (principally at wholesale to big industrial companies and utilities) and keeps a sharp eye on capital structures and returns on invested capital. Pipelines are highly leveraged by debt and preferred stock. Regulatory rulings have, in general, envisioned returns on total investment of 6¼ to 6½ per cent, with permissible earnings of 10 per cent or even more on common stocks. The most critical area of regulation has been in pricing to customers. In several cases the commission ruled that there had been overcharges, and extensive refunds were made. Opinion in the industry is that rates in effect in 1970 are not adequate, that they discourage exploration for new production and may result in a serious gas shortage by 1980.

The rate of growth in gas utilities has slowed down now that this invisible fuel has been brought to all major consumer markets. During the 1960's gas equities were not noticeably popular. While, in general, earnings were in an upward trend and dividends increased, P/E ratios declined.

In view of the indicated future scarcity of natural gas, long-term investment in producing companies with large known reserves may prove desirable. Such companies include Phillips Petroleum, Hugoton Production, Pacific Petroleum, several of the large oil companies, and smaller oil drilling companies.

Among the pipeline leaders are El Paso, Tenneco, West Coast Transmission, Florida Gas, and Transcontinental Gas Pipeline. Tenneco is favored by many because of its extensive program of corporate diversification, embracing Kern County Land, Newport News, Heyden Newport Chemical, and Packaging Corporation of America. Coastal States is an excellent and rapidly growing company in production and piping. Among the integrated companies, Consolidated Natural Gas, Oklahoma Natural Gas, Peoples Gas Light, Columbia Gas System, Pacific Gas & Electric, Northern Natural Gas, Brooklyn Union Gas are worth consideration. Gas distributing companies are quite similar to electric utilities, except that they resell gas at wholesale, instead of generating their own energy sources.

Natural gas also provides the building blocks for the huge and rapidly growing petrochemical industry.

Telephone Utilities

The telephone industry features the prepotence of a single huge company, American Telephone and Telegraph. AT&T is, in fact, one of the largest corporations in the world in total assets and a leader in "people's capitalism," with over 3.2 million shareholders. "T" is the NYSE symbol for AT&T common stock, and the only utility issue among the thirty stocks that make up the Dow-Jones Industrial Average.

Rounding out the telephone service rendered to Americans are some 2,400 independent companies. These had an annual growth rate of about 11 per cent in the 1960's, against about 7½ per cent for "Ma Bell." The number of these "independents," however, is shrinking rapidly because of the heavy capital requirements for expanding and modernizing facilities and the efficiencies created by larger company operation. The shares of larger independent companies usually enjoy more active trading markets and higher P/E multiples.

Accordingly, large corporations are often able to negotiate acquisitions because of the attractiveness of the equity they can offer in exchange for shares in small regional companies.

There have been a series of major changes in telephone technology: automatic dialing, multiple circuits, push-button phones, and transocean transmission. On the horizon are TV phones on which you will see the person you're talking with, and coast-to-coast tie-in of computers with telephones. It has been predicted that by 1975 over 60 per cent of all large computers with their data and memory systems will be telephone-linked.

Investors in telephone equities should benefit from quite predictable long-term growth and considerate regulation (under state utility commissions, and the Federal Communications Commission in interstate service). AT&T has been striving for a return of 8 per cent on its total investment. Returns varying from 7 to 7½ per cent, depending on the types of business done (local, interstate, private-line, Teletype, and so on) have been allowed in the past.

Telephone equities are accorded quality ratings, and have been favored for long-term accounts in modest percentages. The great majority of all "balanced" portfolios contain shares of "T." Capitalization of "T" is about 65 per cent in common stock.

Among independents, the leader is General Telephone and Electronics, and favored independents include Winter Park Telephone, Rochester Telephone, and a peppy company growing at better than 8 per cent annually, Central Telephone & Utilities, which, incidentally, serves Las Vegas, Nevada. Central is the fourth largest non-Bell company. Other entries are Continental Telephone, United Utilities, and Mid-Continent.

There are also some Bell-affiliated companies with shares publicly held: New England Telephone & Telegraph, Mountain States Telephone, Pacific Telephone & Telegraph, and others. For individuals seeking quality equities with above-

average yields and visible growth potentials, selected telephone shares are desirable long-term holdings. Income potentials are augmented from time to time by valuable subscription rights to purchase either common stock at discount prices or convertible bonds.

Water Companies

Among the earliest public utilities in America were water companies. Water is absolutely indispensable, and companies providing it have been the least affected by depressions over the years. There is no record of default of any mortgage bond of any operating water company.

The business has a fixed investment in pumping stations, mains, pipes, and reservoirs, with long useful life and little maintenance required. Water companies need very few employees. Water companies, however, are getting very scarce, because there has been an uninterrupted trend to municipal ownership of water service facilities. Most private water companies have been gathered into holding companies, with American Water Works a leader. Other representatives include Jamaica Water & Utilities, Citizens Utilities, and an independent, Bridgeport Hydraulic.

New companies do come on stream occasionally to serve new development communities, and you will find some of these in Florida. Ultimately, however, most water companies wind up being bought out by cities, usually with sizable windfalls in capital gains to shareholders.

The utility industry ranks as one of our oldest and most respected fields of conservative equity investment.

CHAPTER XIII

Metal Companies

IT is customary to divide metals into two divisions, ferrous and nonferrous metals. We'll follow that practice, and we'll take up iron and steel first because, together, they represent roughly 90 per cent of all metal consumed annually in the United States. Iron ore comes principally from Minnesota and the Lake Superior area (including the supplies of taconite made into pellets), from large Canadian reserves, and from Liberia. Scrap iron is also a major factor in supplying the raw material for steel mills.

Locating and digging ore, transporting it to mills where it is made into pig iron, then, by special techniques, alloying and fabrication, and converting it into plates, rolls, bars, girders, wire, stainless steel—all this is a long process and requires a great deal of capital. Furthermore, new types of electric furnaces have made earlier open-hearth methods quite obsolete and have required the injection of large amounts of capital for mills to remain competitive. For these reasons, steel companies are very large operations, and, in fact, the United States Steel Corporation, founded by amalgamation in 1901, was the first giant industrial company to emerge in America. It is still the largest metal company, followed by Bethlehem, Republic, National Steel, Armco, Jones and Loughlin, and others. There have been benefits from verticality, and the biggest steel companies own or control their own supplies of ores, operate ore carriers and furnaces, and turn

out hundreds of different sizes, kinds, and shapes of steel end-products.

Whereas in the first half of the twentieth century steel stocks, even though recognized as cyclical, were popular portfolio equities, they have since lost favor. United States Steel and Bethlehem, market darlings in 1929, no longer command high P/E multiples (the multiple was around 9 in February, 1970) and are sought more for yield than growth. Most steel issues sell at fractions of book value, which is another way of saying that their returns on stockholders' equities are unrewarding. Regarded as perhaps more attractive than the leaders have been specialized companies such as McLouth Steel and Northwestern Steel and Wire, where advanced plants and specialized products have expanded earning power and stimulated corporate growth. Oxygen furnaces are now the "in" thing in steel production, replacing earlier types of furnaces.

"Go-go" and performance funds have found little to attract them in the steel list. Because of their traditional cyclical market performance, steel issues are often attractive, however, to technically minded traders who can discern and profit by major market swings that occur with some regularity. Armco and National Steel are equities respected for their dependable dividend records.

The steel industry has been handicapped by competition with other metals, by imports, particularly from Japan and Germany, and by high labor costs and costly strikes.

Aluminum

This is another metal requiring huge capital investments for its production (about $2 in capital for every $1 in annual sales). Accordingly, although aluminum ranks next to steel in importance, there are only a handful of major producers: Aluminum Company of America (Alcoa), Reynolds Metals,

Kaiser Aluminum & Chemical, and in Canada, Alcan Aluminium Ltd. While the uses and consumption of aluminum have been steadily rising, earnings of aluminum companies have been somewhat erratic because of rather frequent price cutting. The outlook for the 1970's appears good, however. Demand has pretty well caught up with capacity, and companies are upgrading their profits by product fabrication and by aggressive penetration of newer markets: electricity, housing, siding, windows and doors, foil and packaging, boats, trailers and mobile homes, and aluminum to replace steel cans for beverages. The best long-term values in aluminum stocks are probably Alcoa and Reynolds. Down the line there are literally hundreds of companies fabricating aluminum, such as Rusco or Southern Extrusion, which must be evaluated for investment purposes on their positions in their fields, efficiency of operation and marketing, and accessibility to markets.

Copper

More romantic and volatile in market action have been the copper stocks. Copper is the most extensively used nonferrous metal, valued for its high conductivity of electricity and in huge demand in construction, tubing, electronics, electric power distribution and wiring, and automotive industries. Great fortunes have been made in copper mining shares. In the United States, vast copper ore bodies are located in Utah, Arizona, Montana, and Michigan. Canada (in Ontario and British Columbia), East Africa, Chile, and Peru also contain copper ore. Large copper companies include Anaconda, Kennecott, International Nickel, Cerro, Phelps Dodge, Newmont Mining, Cominco Ltd., Copper Range, Inspiration, American Smelting, Hudson Bay Smelting, American Metal, Texas Gulf Sulphur. Among smaller companies, Atlas Consolidated in the Philippines has rewarded its shareholders extremely well,

and Mattagamini in Canada is thought to have excellent long-range potential.

Because of strikes and intense industrial demand, the prices of copper surged to above $.60 in 1970, and all producers (except those penalized by strikes) did well. For the 1970 decade, some of the leading analysts have expressed preference for Copper Range (probably the most leveraged company in the industry), Inspiration Copper, and Hudson Bay Smelting. The United States leads the world in copper demand, and uses much more copper than it mines. The most impressive foreign growth in copper demand has been in Japan, which has been enlarging its sources by acquiring interests in British Columbia and Australia, and it has contracted for over 90 per cent of the output of Atlas Consolidated.

Features to consider in selecting copper shares are the indicated price trend of the metal, the extent, location, and quality of ore bodies owned, and wavering political climates creating uncertainties in Chile and Peru, Zambia and the Congo. Most copper producers pay high cash dividends and benefit from large cash flows.

Lead and Zinc

Lead and zinc and silver are often found as "affinity" metals with copper, and these lesser metals have developed their own special uses: lead for automobile batteries and (decreasingly) as an additive for gasoline, zinc in die casting, and silver in industrial and photographic use. Of these, the prospects for long-term price increase (and rising demand) are probably best in silver. Industrial uses around the world are taking up the slack caused by major demonetization of the metal during the 1960's, and U.S. Government surplus stockpiles will all be disposed of by the end of 1970.

Most of the big metal companies have sizable stakes in silver. Specialists would include Fresnillo, International Min-

ing, N.Y. and Honduras Rosario, Coeur d'Alène Mines, United Keno, Callaghan Mining, and Day Mines. Speculation is based heavily on the hope that silver may command a price as high as $3 an ounce by 1980.

Gold

After land, gold has been man's most cherished possession for thousands of years. Gold has wonderful luster, is easily portable, and lasts eternally because it does not rust, corrode, or deteriorate. Most of the gold produced in the past six thousand years (over three billion ounces) is, in fact, still around. Gold has been the basis or background of national currencies for centuries.

But gold has been a sacred cow, and nations of the world have been determined to keep its official price unchanged (since 1934) at $35 an ounce, even though production costs have soared. Meanwhile, such changes as the elimination of convertibility of paper currencies into gold and, in the United States, taking away the gold backing for Federal Reserve Notes (in March, 1965), dual gold prices, and finally the introduction of "Special Drawing Rights" as an alternate to gold in international settlements under the Monetary Fund, have all downgraded gold and caused gold stocks to languish in investor disfavor. Every rumor of depression or of possible devaluation of a major currency, however, stimulates speculative interest in gold anew.

The arguments about gold are most complicated, but there are still men of great wisdom in high places who believe that one day the price of gold may be dramatically increased to $60 or more per ounce. If this occurs, then shares in companies such as Giant Yellowknife, Dome Mines, Homestake Mining, Campbell Red Lake, Kerr Addison, Little Long Lac, and Eagle Gold might romp; and South African equities including West Deep Levels, Anglo South African, American

South African, Free State Geduld, and West DreiFontein could soar. All of these have important stores of subterranean gold, and their potential earnings depend on just one thing—the price of gold.

Nickel

We neglected, along the way, to mention nickel. Here's another metal that's essential for the space age and in short supply. International Nickel dominates this field (it's also the fourth-largest North American producer of copper). Falconbridge is next in importance. Vast new stores of nickel have been confirmed in New Caledonia, and a great French development is going on there. Small Canadian mines such as Nickel Rim or Texmont provide the kind of long-shot speculation clamored for by bold risk takers. Agnico is an interesting Canadian producer.

In an inflationary economy, metal stocks, representing wealth in the ground, are considered highly desirable. If we are to assume that inflation will continue, then investment representation in leading producers of metals in high demand should prove rewarding; and you should get the latest figures on some of the renowned metal companies alluded to in the foregoing. A time may come, moreover, when multiple refining of ores, turning out, as from an assembly line, nickel, copper, zinc, lead, silver, all from a single inflow of ore, may greatly reduce production costs. Right now, leading mining engineers think it possible that with present advances in mining and refining technologies, many of the old abandoned silver mines of Colorado, Utah, and Nevada could be brought back into profitable production.

CHAPTER XIV

Pollution Control

THE 1960's popularized the word "ecology"—the science of man's environment. This new interest in our environment arises from the careless and destructive ways in which man has, for years, exploited and mistreated the marvelous resources God has intrusted to him. First to cry out were the conservationists, who campaigned against the wanton devastation of timberland and the butchering of wild animals. The conservationist movement began when we still had such extensive uninhabited areas and so small a population, relative to the American land mass, that there was little general concern.

Now we are seriously faced not only with a more urgent need for conservation of land and water and wild life resources, but with a staggering new problem of pollution. While our population and cities grow and industries proliferate, our environment of air, land, and water remains fixed. It does not expand to accommodate massive increases in sewage, domestic and industrial wastes, and the fouling of the atmosphere from the by-products of power generation.

Air Pollution

The most talked-about pollution is in the air. All of us who live in big cities have seen the clouds of smoke belching

up from electric power plants, steel mills, and incinerators, darkening the sky, congesting the lungs, and irritating the eyes and skins of city dwellers. Cement and chemical plants further contaminate the air we breathe. Equally noxious and far more pervasive are the fumes from 110 million gas-driven vehicles on the streets, avenues, and highways of America. A look at the sky from any airport is all you need to convince you that jet planes, especially when zooming upward at takeoff, are major contributors to aerial filth. The air over great metropolitan areas is bad enough on an otherwise clear day, but on overcast days all this adulterated air can become a blanket and, by air "inversion" (as in Donora, Pennsylvania, some years back), become a mass killer and seriously affect the lungs of survivors.

Air Pollution Control

The motor industry has taken major steps in an endeavor to reduce or eliminate the fumes from internal combustion engines. New engine designs, carburetor and muffler attachments and modifications have been engineered to cope with the problem, and all 1971 car models must have pollution retardant devices. In 1970 moves were made to eliminate lead as a gasoline additive. The Ford Motor Company will spend $31 million in 1970 on exhaust pollution control, and competition will surely follow suit.

Ahead lie perhaps electric or steam cars, or those operated by gas turbines. It is difficult to single out the company most likely to increase its earnings in a major way from its combustion control devices. Universal Oil Products and perhaps some of the automotive suppliers, such as Sheller-Globe, Midas International, or Rayco, may pioneer with the winning product, especially for older car models. Ethyl Corporation has devised a new pollution-reducing gasoline engine.

Air Pollution Generally

Air pollutants are particulate matter in two general categories: "aerosols" and gases. In most instances they are visible. Aerosol pollution, if from solids, is either a dust (like cement or lime) or a fume; liquid aerosols appear as mists or sprays. Gaseous pollutants come in several varieties: the engine exhausts we mentioned above, remnants of oil or coal combustion, and aerial discharges from chemical and paper plants and oil refineries.

The air pollution control industry devotes its efforts principally to the removal of particulate matter from the air. Companies in this field make four basic types of devices or hardware to achieve this removal: electrostatic precipitators, fabric filters, wet scrubbers, and mechanical collectors. These four currently do about 90 per cent of the work in the control of metropolitan or industrial air pollution, but extensive research is being pursued in this field, and new technological advances may be expected.

Electric precipitators are first in sales volume. These units are usually large and expensive, but operate with great efficiency and low maintenance costs. They generate electrical charges which attract oppositely charged surfaces, collecting dust particles at central hopper-type units, from where they can be removed mechanically. Precipitators are widely used in chemical and cement plants and in electric power generating stations.

Fabric filters are really large bags that collect dust like a vacuum cleaner. The bags, usually of cotton, wool, or synthetic fabrics or fiberglass, can be removed and replaced, creating a steady repeat-order market. In several industries there is a recovery by-product of commercial value (fly ash, in the case of fossil-fueled electric power companies). Wet scrubbers snare particles in water drops or globules and wash

them away. They are especially useful in treating industrial gases. Mechanical collectors separate particles by centrifugal force, much like a cream separator. These are generally small, relatively inexpensive units.

The current corporate leaders in air pollution control would include American Air Filter, Buffalo Forge, Johns-Manville, Joy Manufacturing, Monsanto Chemical, Research-Cottrell, Slick Corporation, and Wheelabrator. Of these, Joy Manufacturing is the largest, and it produces all four kinds of air control devices. Slick is moving rapidly ahead through its pulverizing machinery division, and its acquisition, in 1969, of Filtrol Corporation. Buffalo Forge has long been a quality leader in air handling and cleaning equipment and has, in recent years, reported excellent annual gains in sales and net profits. Research-Cottrell is perhaps the most glamorous of the group, and its shares have commanded, by far, the highest price/earnings multiples.

Water Pollution Control

Water control principally relates to three major varieties of pollution: (1) thermal, created by injecting hot water into streams and disturbing their oxygen contents, (2) sewage pollution, which fouls the stream, river, or lake, making its water unfit or dangerous for use and again disturbing the oxygen balance, and (3) industrial pollution from wastes spewing forth from manufacturing plants.

To variously treat these problems of contaminated waters, technology has divided along three general lines: (1) separation and removal of contaminating wastes, employing screening or sedimentation methods, (2) addition of chemical elements to a polluted water body, which can neutralize or convert the contamination, or facilitate its separation and removal, and (3) destruction of the offending elements by

oxidation, evaporation, or incineration. These techniques of correction have obviously been oversimplified. The companies in the business of water pollution control are usually large, with talented staffs of research scientists, and capability in development not only of products to effectuate the above processes, but of engineering and technical field forces to analyze specific problems and to design special systems to solve them. Solution of a water pollution problem may involve chemical treatments, screens, filters, sedimentation and disposal tanks, ion exchange units, and removal facilities, all built into a complete system. It's a big business requiring capital, high technical competence, and imaginative research.

Recognized leaders in water pollution control include Betz Laboratories, Hytek International, Culligan, Inc. (famous for "Culligan Man"), Dorr Oliver, Marley Company, Nalco Chemical, Aqua-Chem, Neptune Meter, Sybron Corporation (formerly Pfaudler-Permutit), Zurn Industries, Mogul Corporation, and an ozone method specialist, Purification Sciences, Inc. Of these, Sybron is the largest and Neptune Meter perhaps best known, because it has been for years the largest maker of water meters. Neptune has patented water treatment systems and systems for solid waste disposal that represent major technological advances. Zurn is a progressive company in air pollution control, as well as in water. Purification Sciences may have a superior method. Research-Cottrell, mentioned under air pollution, is also increasingly important in the sanitized water field. Johns-Manville is an increasing factor in pollution control.

The View Ahead

The foregoing has merely sketched or outlined the importance and potentials of the air and water pollution control industry. It is estimated that this market may become, by

1980, a thirty-billion-dollar one. It is growing at a rate of about 18 per cent annually and appears certain to be a potentially rewarding field for long-term investment. Legislation at the national and state level is becoming increasingly effective, and public opinion is slowly recognizing the vital need for these controls.

There are some problems, however. First, there has been a lag in enforcing existing anti-pollution laws, and large paper and chemical companies are reluctant to spend the millions needed to purify their operations. Pollution control costs money, and its expense may not easily be passed on to the consumer.

Anyone who has followed the Hudson River south from Glens Falls to Albany has viewed a dozen or more paper mills pouring out millions of gallons a day of greenish and black industrial waste fluids into the river. Many other rivers, and notably Lake Michigan and Lake Erie, are grievously suffering from similar chemical and biological fouling. Aroused citizens are going to insist that this pollution cease. For many companies, compliance with present and prospective anti-pollution laws can be painful. Curtailed growth, heavy capital expenditures, and lower earnings may result. These compliance factors should be considered by investors seeking commitments in certain chemical or paper equities. While pollution control may spell expanding earnings for the corporation with retardant products listed above, it may well be a drawback for the equities of affected companies.

To illustrate, the Giant Portland Cement Company, which had been manufacturing cement at one plant in Egypt, Pennsylvania, since 1905 (with annual sales revenues of about $5 million) closed the plant down permanently at the end of 1969, rather than spend the $1 million needed to eliminate the cement dust problem it created in the community. The Ford Motor Company budgeted $60 million in 1970 for control of air and water pollution in all its plants.

Pollution is one of the major economic problems of our time, and definitely a factor affecting security portfolio decisions. It is also building a vast new growth industry providing the prospect of rewarding investment opportunities to the informed and the perceptive.

CHAPTER XV

Leisure Time

ONE of the major sectors for successful investment in recent years and, no doubt for the 1970's, is the leisure time market. The steady rise in per capita incomes, shorter work weeks, longer vacations, and earlier retirement are increasing the dimensions of consumer markets at the rate of probably at least ten billion dollars annually. What are these uses of, and products for, leisure which are in so dynamic an expansion phase?

Let's start with motorcars. There are over 110 million motor vehicles on the road (January, 1970), with some 10 million additional new units annually produced. This vast automotive demand has created massive investor holdings of the common stocks of General Motors, Ford, and Chrysler. Motor-oriented use of leisure has resulted in the design and mass production of many related products. For example, the leisure vehicle industry in 1969 became a billion-dollar one. The largest sector was mobile homes, those elongated over-the-road domiciles that can be hauled from place to place and landed, to become a residence in a trailer park or a rural or waterside vacation land site. Mobile homes provide a functional home, not tied down to a permanent building site and swiftly movable anywhere, anytime the owner gets wanderlust or seeks residence in a new geographical region. (Actually only 3 per cent of them ever move.)

A few years ago, mobile homes were being built, for the

most part, by small local companies and the industry was highly fragmented. A few of these companies have grown to become significant producers, some have merged, and we may expect mergers and consolidations to continue in the 1970's, with large national companies the ultimate survivors. Larger producers benefit from volume buying, standardized low-cost assembly-line production, and nationwide advertising and dealerships. Leading mobile home companies whose shares have earned and performed well are Fleetwood Enterprises, Mobile Home Corporation, Schott Industries, Redman Corporation, and Skyline Corporation among the leaders.

Even more scattered have been the makers of motor trailers to carry furniture or goods, or camper trailers to stow tents and equipment for vacation, hunting, and fishing trips. These trailers are less expensive than mobile homes, ranging in price from a few hundred to around fifteen hundred dollars.

Motor Homes

Probably the fastest-growing sector of the leisure vehicle market is the motor home. This unit does not need to be towed but is a complete, self-contained home built on its own truck frame. (Most frequently a Dodge chassis has been selected.) The motor home has the unique advantages of (1) instant mobility, (2) opportunity for passengers to ride (or sleep) in the home (illegal in towed units) and even to look at TV while traveling, (3) complete functional living (many units sleep six), with tile bathrooms, wall-to-wall carpets, heating and air conditioning, and stereo equipment all available as desired, (4) costless home sites—along a road in a field, in the woods, or on a mountain, (5) self-sustaining electric power units, (6) superior road safety (in comparison with towed units).

Motor homes represented a $170 million market in 1969, and the sales total is expected to double by 1975. Delivered

prices range from around $8,000 to $15,000 or more for customized luxury models. Of the seventy companies making motor homes in 1969, the largest by far was Winnebago Industries, accounting for about 25 per cent of the market.

Winnebago manufactures seven models of motor homes and ten models of travel trailers (as of January, 1970), which it distributes through over four hundred dealers in forty-nine states and Canada. Sales have been in a dynamic up trend: $34.4 million in the fiscal year ending February 2, 1969, and $67 million in fiscal 1970. Net profits were $2.4 million in 1969 and $3.5 million in 1970. A real growth situation under talented management.

A new entry is Superior Coach Corporation, a division of Sheller-Globe Corporation. Superior has long been a world leader in making school buses and dominant in the production of professional vehicles—ambulances, hearses, and so on. Because of its experience, size, and resources, Superior Coach seems likely to become a significant factor in motor homes and to expand the earning power of Sheller-Globe, a leading producer of steering wheels, automotive components, and safety devices.

Motels

For those who prefer not to take their shelter with them when motoring (and have no regional relatives to descend on), motels are everyman's answer. Their convenient locations and modern designs, with built-in parking lots, functional comforts, dining and recreational facilities (swimming pools are becoming almost standard), electronic advance reservation systems, and reasonable costs have stimulated motor travel and created a great industry, nonexistent a generation ago.

There are several seasoned and rewarding stocks in the motel field. Leaders would be Holiday Inns, Sheraton (a divi-

sion of IT&T), TraveLodge, Royal Inns, Downtowner Corporation, American Motor Inns, Ramada, and the Quality Court group. The investment attractions of motel shares are (1) a built-in real estate speculation because motel properties are generally well located and increasing steadily in market value, with costs to duplicate them advancing with each passing year; (2) the fact that most motels borrow 60 per cent or more of total investment, creating excellent leverage for equity holders; (3) occupancy percentages in a rising trend; (4) excellent profits from franchising; (5) steady occupancy at rates above 70 per cent, which can be highly profitable (daily rates have also been rising slowly); (6) interoffice referral bookings, which build captive business for regional and nationwide chains; (7) multiple-unit operation, which permits efficiency in central purchasing, accounting controls, computerization, lower costs of construction and maintenance, and a continuity of well-trained management. In addition, many motels are expanding in attractive new regions—Canada, Europe, Australia.

As a representative motel investment, Holiday Inns deserves a look. Holiday is the IBM of the motel industry with over 1,060 inns (as of January, 1970) with over 142,000 rooms. About 17 per cent of the inns are owned, with the others operated by licensees. Holiday is now endeavoring to increase its "owned" units. Holiday also controls TCO Industries, which in turn controls Continental Trailways, the second largest bus line system in America. Management is top, and stock rewarded investors by rising from $4 in 1965 to a 1969 high of $47. Holiday's long-range prospects continue bright.

Hotels

While growing less rapidly than motels, hotel chain stocks are also desirable as land-based, leisure-related investments in an inflationary economy, and they similarly benefit from

efficient managements and leveraged equities. Among the popular equities are Hilton, Western International Hotels, Hyatt Houses, Hotel Corporation, and Loew's.

There is also a very special kind of hotel that has recently come on the investment scene—the resort hotel accenting gambling. These hostels have a money-snob appeal and cater to upper income clienteles. The affluent population sector is growing rapidly, and by 1975 there are expected to be 34 million American spending units with after-tax income of above ten thousand dollars. Within this group are a few million avid gamblers to whom Las Vegas is a magic name. To cater to this swinging set, gaudy Las Vegas had, at the 1969 year end, twenty-two major hotels with casinos to match. Of these, nine were privately owned, but public company representation was as follows:

Resort Hotels and Casinos	Owned by
Aladdin Hotel Fremont Hotel Stardust Hotel	Parvin/Dohrmann Corporation (ASE)
Flamingo Hotel International Hotel (opening 1970)	International Leisure Corporation (OTC)
The Mint Sahara Hotel Thunderbird Hotel	Del E. Webb Corporation (NYSE)
Dunes Hotel Golden Nugget (casino only)	Continental Connector (ASE)
Hacienda Motel	Hacienda Motel Corporation (OTC)
Tropicana Hotel	Texas International Airlines (OTC)
Bonanza Hotel	Levin-Townsend Corporation

Las Vegas is undoubtedly the gambling center of the world, and in its resort hotels, tourists spent $141 million in 1968, exclusive of gambling, which grossed an additional $214 million. In the period 1960–1968, gambling revenues increased

by over 100 per cent (better than 11 per cent annually). Of the companies mentioned above, International Leisure Corporation derived (1968) 100 per cent of its revenues from Las Vegas; Continental Connector, 70 per cent; Parvin/Dohrmann, 64 per cent; Del E. Webb and Hacienda Motel, about 40 per cent each; and the others lesser percentages.

Gambling

In analyzing casino-hotel shares, you will find capitalizations highly leveraged, with mortgages 70 per cent or more of total capitalization. Actual hotel operations are less profitable than resort hotels generally, because of expensive entertainment, fine dining, and posh service; but with high-level profits gleaned from the casino play Las Vegas has become a well-rounded, internationally known resort community awash with swimming pools, tennis courts galore, dude ranches, horseback riding, fifteen golf courses, and Lake Mead (230 square miles), which is highly attractive to fishermen, water skiers, boatmen, and swimmers. Since Howard Hughes invested well over $100 million in Las Vegas, land values have been soaring, and in 1969 such little open land as remained "on the strip" commanded a price of $40,000 an acre or more.

For the bold and the sporting, some of the shares cited above may prove speculatively attractive in the 1970's. But remember, gambling is a tricky business, heretofore largely in the hands of private groups and syndicates, some involving quite a few unsavory characters. High profits depend on attracting droves of people in high brackets; if we have a depression, gross revenues at Las Vegas might swiftly shrink and mortgage payments become hard to meet. There's plenty of action in this market sector, but it's no place for "scared money."

Kindred to casino shares in their attraction to those with

leisure-time sportsfolk with surplus dollars are the horse parks: Santa Anita, Monmouth Park, Yonkers Raceway, Roosevelt Raceway, Jockey Club of Canada, and so on. You can buy shares in all of these. Analyze the earnings for the past two years and give preference to those issues (1) showing significant growth in net profits and (2) with extensive land acreage, some of which may be sold off later for sizable capital gains.

Participant Sports

Pursuing leisure investments further, there is the whole field of participant sports to consider, with stocks such as Head Ski, Gladding Corporation (fishing, archery, sleds), Wilson Sporting Goods, Acushnet, American Machine & Foundry (bowling and snowmobiles), Brunswick (bowling), and others. We have in the United States 18 million tennis players and 26 million golfers, whose special purchases define a major industry.

Reading, as a leisure pastime, needs no special citation here. Public companies of stature in book publishing include McGraw-Hill, Prentice Hall, Harper & Row, Harcourt Brace & World, Simon & Schuster, Crowell-Collier, Grosset & Dunlap. Stocks of many of these sell at high P/E multiples and have displayed excellent growth rates. Publishing is rather easy to enter, and there may be newcomers going public that can go and grow.

Also big in leisure time are the TV companies: RCA (owning NBC), CBS, American Broadcasting, Metromedia, Taft Broadcasting. A look should also be taken at CATV and possibly subscription TV entries.

We neglected to mention car rental as big-time leisure, with Hertz (owned by RCA), Avis (owned by International Telephone), and Kinney Systems the leaders. A number of smaller companies have entered the field, and there is some

thought that there may now be too much competition in the field for further growth and profit gains at historic rates.

Boating

Finally there's the whole field of water sports, headed by the boat and outboard companies and including makers of swimming pools. The leaders are, no doubt, Chris Craft in bigger boats and Outboard Marine in motors. Perhaps in no leisure field is the custom of "upgrading" so pervasive. A family man with rising income may start with a 10-foot outboard, move to an 18-footer, then a 26-foot inboard, and finally to a 35- to 50-foot cruiser. So long as America remains an affluent society, this progression in conspicuous consumption may be expected to continue, and to benefit pleasure boat companies.

An across-the-board representative in leisure time is Outboard Marine Corporation, which derives 70 per cent of its revenues from sales of Johnson and Evinrude outboard motors and auxiliary equipment. Rounding out its leisure lines are Cushman Cart (electric), Skee-Horse and Skeeter snowmobiles, Trade-Wind Camper, and Lawn Boy mowers. The company has given up making small boats, preferring to concentrate on motors. Outboard is in a long-term growth trend. Research its latest statements and evaluate for your own purposes its issue of 8.1 million shares (OM) on the NYSE.

Art

Finally, a quite new area in leisure has appeared—art. People with surplus funds and cultural aspirations now strive to reflect, in their own homes, their taste and opulence, and tens of thousands are now reading up on, and buying, art. The more well heeled strive for original art; others go in for lower-priced prints and lithographs. The whole field is

growing by leaps and bounds, and while few can afford two million dollars for a Rembrandt, many may acquire original paintings by such as Miro, Manet, Picasso, Cornu, Pollock and see their investment grow in market price.

New galleries are springing up, not only on Madison Avenue, but all over the country, independently, franchised, or as departments of great stores.

In 1969 over twenty art company issues were in SEC registration. Those emerging as public issues include Vestart, Inc., Wally F. Finlay International Galleries, Continental Art Galleries, Vanguard Studios, and Intercraft Industries. By marketing by themselves and by licensees, some of these may become significant high-earning companies. Follow their earnings' statements and you'll get the message about which are "winners." Art is already a billion-dollar industry.

In this chapter we have reviewed in capsule form some of the major entrants in the leisure derby. We've missed some including the great brewing and spirits companies (Anheuser-Busch, Pabst, Seagrams, Schenley, Heublein, and Schaefer), Coca-Cola, Pepsi, and Royal Crown and Frito-Lay potato chips. We have, however, spread before you a panorama of industries and equities of genuine promise for the 1970's. Do some research in this area, and ask your broker for latest information on likely issues. The right stock may prove a fortune-building investment.

CHAPTER XVI

Franchising Companies

THERE are today about 780 substantial franchising corporations with close to 500,000 marketing outlets, generating total annual sales in excess of $80 billion. Franchisees are selling everything from hamburgers, hot dogs, doughnuts, ice cream, pizzas, and fried chicken to pets, works of art, wigs, and mufflers, and in services, career schools, employment placement and, of course, the operation of major restaurant and motel chains.

How is it that licensing has become so popular? There are several reasons: (1) the age old yearning of ambitious men who have saved a little money to "become your own boss," (2) rising levels of per capita income, which have enabled millions of people to travel and "eat out" more often, (3) modern demand for clean, economical roadside food and motel service, (4) wide popularity of certain "fast foods"—hamburgers, doughnuts, pizzas, and so on, (5) new techniques in design of shops for quality production and service in volume, (6) effective instruction and supervision of licensees, (7) opportunity for people to enter new businesses with relatively little capital and to benefit from the experience, know-how, and advertised brand names of successful companies in the field.

Dunkin' Donuts, Inc.

Dunkin' Donuts, Inc. is a useful example. One William Rosenberg started out in Boston after World War II with a motor truck loaded with "donuts" which he drove to various factory areas. The donuts sold so well that he saw a great demand, so he opened a series of donut shops. His success, and winning recipes for donuts, attracted others. Before long he was licensing shops, helping his new associates to select locations and arrange financing. A Dunkin' Donut licensee puts $18,000 on the line, which is actually down payment on equipment and shop costing approximately $50,000. Out of weekly sales, the licensees pays fees, 4.5 per cent of sales the first year and 4.9 per cent thereafter, plus about 2 per cent toward advertising. A good shop, run energetically, may clear $15,000 to $35,000 a year depending on the location and the drive and talents of the licensee.

Dunkin' Donuts, which began franchising in 1955, now has a chain of over 350 shops featuring some 50 varieties of donuts and pastries and beverages. More recently, 30 Howdy Beefburger drive-ins have been added. In the five-year period 1965–1969, net earnings increased over sevenfold. Stock sells OTC and there was a two-for-one split in 1969.

Kentucky Fried Chicken

Even more spectacular has been the success of Kentucky Fried Chicken, Inc., famous for the unique quality of its fried chicken, prepared under Colonel Sanders' secret formula. KFC has over 2,600 retail outlets and is the world's largest buyers of broilers, purchasing 8 per cent of America's output in 1969. A well-located KFC franchise may gross $250,000 a year, earn $45,000 or more for the franchisee and $15,000 or more for the parent company. Franchisees put up $50,000 and pay a percentage of sales in fees. The company has re-

cently been buying back some of its units for its own operation (as have several other franchisers, including Howard Johnsons).

KFC went public in a 1967 underwriting at $15 a share. With splits, dramatic gains in profits and share prices, an original $15 investment reached a market high in value of over $300 in 1969. It is reported that more than 120 people have become millionaires from early investment in (and retention of) KFC common. (The stock declined heavily, however, in 1970.)

Pitfalls

Licensing is not all a bed of roses, however. Take the case of Minnie Pearl's Chicken System, Inc., organized in Nashville with Minnie Pearl, the homespun country and western singer, supplying the name. "Front money" was put up by a Nashville group who bought original stock at $.50 a share. After public offering at $20, the stock rose spectacularly to around $60 and early entrants made killings. The stock was split three for one and the company name has been changed to Performance Systems, Inc.

This company was most aggressive in licensing. In 1968 Performance Systems, Inc. reported total revenues of $13.4 million. Practically all of this, however, was from franchise payments, as the company reported only $144,810 in chicken sales. Moreover, over $8 million of the gross revenues was in promissory notes! It proved difficult for the company to assemble good locations at reasonable prices, there was a time lag in the building of new stores, and bank loans became harder to get and more expensive. Thus, Performance Systems, Inc. has not yet become a successful marketer. In 1969 a substantial stock interest was acquired by National General Corporation.

Franchise stocks in general have sagged in recent months;

a decline in Lum's, Inc. has been particularly noticeable. Speculators have apparently been attracted to these issues by the rapid buildup of revenues from franchisee down payments. A company in this business earns money by (1) sales of franchises to operate stores and to use the company's trade name, and (2) selling goods and collecting fees (agreed percentages of sales). For a number of companies, the big accent has been the sale of franchises, as the Minnie Pearl case illustrates. Reporting the total of franchise sales as revenues, in the year made, can be confusing and possibly misleading. The payments are usually partly in cash (sometimes only 10 per cent) and partly in notes. What happens if the store does not succeed, if the franchisee loses his store and his cash down payment and can't meet the notes? This uncertainty suggests that either the entire franchise be prorated over a period of years, or at the least, that only the cash portion of the sale be reported as income in the current year. This treatment, spreading franchise sales revenues over perhaps a five-year period, would sharply reduce reported company earnings in many instances.

In any event, some of the bloom is off franchise stocks and some marginal companies may have a tough time continuing. Credit costs, soaring land prices for most desirable locations (many of which have been snapped up), and hot competition are putting pressure on earning power. The future belongs to the more efficient, more experienced, and the financially entrenched companies.

A random shopping list of franchisers might include International Industries, McDonald's, Denny's, Dunkin' Donuts, Chicken Delight, Lum's, Pancake Houses, Kentucky Fried Chicken, Pillsbury (Burger Kings), Gino's, Serv-Quick, Wetson's, Inc. (dry cleaning and fast foods), Midas International (mufflers), Weight Watchers International, and perhaps newcomers such as Vestart, Inc. and Wally F. Finlay galleries, developing chain outlets for paintings and lithographs. In

motels, leaders include Howard Johnson, Holiday Inns (which in 1969–1970 bought back 74 licensed inns for $60 million), and TraveLodge (in which the innkeeper is usually a 50 per cent partner with the company).

License company equities have much merit and, many of them, bright futures, but they should be sought and bought most selectively.

CHAPTER XVII

Computers and Information Processing

THE record of the computer industry in the 1960's is a tough act to follow. The industry grew from $1 billion annually to over $10 billion (computers and hardware) in that decade, and bids fair to soar to $25 billion by 1975. There are now over sixty thousand computers on stream.

Few major industries have displayed such a dynamic long-term growth rate. Born only twenty years ago, the computer is now the major element in data recording, storing, evaluating, transmission, and recall. Use of computer systems by financial, transportation, and merchandising institutions and computerized data processing in science, engineering, accounting are expanding daily.

Technological Progress

Computers are now in their third generation, with the fourth just around the corner. Technological advances have been stimulated by breakthroughs in electronics. The first computers were implemented by vacuum tubes that magnified and switched basic computer symbols by electronic circuitry. Vacuum tubes, large and relatively difficult to install and service, were replaced by transistors, which have been steadily miniaturized since their introduction. Next came the integrated circuit, which made possible today's marvels of electronic

robotry—computers that cost $1 million or more and can retain and recall up to 260,000 words (in computer language).

New Developments

Progress here is unceasing. The large-scale integrated array (LSI)—nearest relative to integrated circuitry—is on the horizon and will make computers run still faster. Speed is the major objective among computer designers. To illustrate, right now magnetized memory cores, shaped like miniature quoits, can recall and retrieve a desired data item in half a millionth of a second. You'd think that was fast enough, but no. The clusters of magnetized and neutral mini-quoits are about to be replaced by wires, magnetically plated, that retrieve at a rate five times as rapid, or within 100 nanoseconds, in the argot of the industry. Coming to market now are mini-computers for more limited applications. These may cost $22,000 or less, and be limited to 7,000 or 8,000 memory words. Wang Laboratories and Vernitron are factors in mini-computers, and National Cash Register has a relatively small model which many experts regard as the best in its limited field. Supplementing these are specially designed computer cash registers and electronic calculating machines with built-in memory systems.

Ahead there will be rapid growth in connecting big computer systems and memory banks with users by telephone wires. Only about 5 per cent of existing computer center systems are so connected, but in the next decade the percentage may rise to 60 per cent or higher. AT&T has staked out its claim in this area, but is getting some competitive "static" from large computer service companies who prefer to develop their own captive telephone networks.

Terminals and Retrieval

While circuits have grown smaller and computers bigger, existing and potential markets have almost no dimensional limits. A publisher such as *The New York Times* could recall from a computer bank a needed news item in a fraction of a second. A lawyer preparing a brief could bring to his desk similar cases and relevant precedents in a jiffy. Doctors with unusual medical cases might compare symptoms, reactions, and useful therapy with similar case histories locked in computer memory banks.

Computer guidance is the next step. In the same way that computers monitored the flight patterns and deviations of moonships for NASA, they could detect and regulate market changes, inventories, production schedules, manufacturing costs, and profit margins. By spotlighting quickly an error in judgment—overbuying, inventory shortage, machine inefficiency, and so on, computers may reduce costly and heretofore hidden errors in corporate operations. Terminals (keyboard cathode-ray tubes that simulate a typewriter hooked up to a TV set) on the desks of professional people and technicians may make possible the instant flashing on a screen of memory-stored data, just by pressing a button.

Large computers are making possible a steady increase in time sharing. Companies owning or leasing maxi-computers in most cases do not use them to full capacity, and can easily and profitably share time with others. In fact, devices on the planning boards may make possible using computers by several time sharers at once, because their retrieval requirements may be fielded in nanoseconds.

Input/Output

While no structural breakthrough is anticipated in computers in the visible future, major advances are expected in

computer input/output technology. Peripheral equipment manufacturers may be the star performers here, with such devices as key-to-tape inputs featured by Mohawk Data Sciences, and optical character readers featured by Recognition Equipment and Optical Scanning. Potter Instrument has become an increasing factor in data storage disk drives, and Memorex an outstanding performer in computer tapes. Computer output on microfilm is ultrarapid and increasingly popular. Business form makers have a vital place also, led by Wallace Business Forms, Lewis Business Forms, and Acme Visible Records.

In computers themselves, IBM is far and away the leader, accounting for about 70 per cent of industry sales, followed by Sperry Rand (Univac), Control Data, Burroughs, Honeywell, National Cash Register, Digital Equipment. Important to the future of many smaller companies was the decision of IBM on June 23, 1969, to "unbundle" its pricing structure—to put specific prices on its frames, hardware, and software (nonmechanical sector of the computer business—programming and services) instead of selling complete systems at "package" prices. This decision has made it possible for many smaller companies competitively to offer peripheral products and services geared to their own specialized capabilities in production and marketing.

A number of companies have expanded rapidly by computer leasing—buying units and hardware (borrowing heavily to do so) and leasing them to strong companies, usually from one- to five-year periods. Within this time (five years) the computers are pretty well written off, and may possibly be resold at a profit. Companies significant in this field would include Data Processing and General Corporation, University Computing, and Leasco. Shares in computer-leasing companies lost popularity in 1969 and 1970 because of a decline in earnings trend. One company, Levin-Townsend Computer Corporation, disclosed a net loss of $15.9 million in the nine

months ending December 31, 1969, and in March, 1970, was $11.2 million behind in its payments to IBM.

Software Companies

Companies providing needed talents for the operation of computer services and centers are in demand, and computer programmers may be in short supply for a long time. (Computer training schools have sprung up in several cities.) Computer Sciences, Computing and Software, Applied Logic have a considerable appeal in software, and Systems Engineering Laboratories has been an innovator in computers and peripheral hardware.

Office Equipment

Apart from computers, representative office equipment suppliers of stature would include, of course, Xerox, MMM, and Dennison Manufacturing in copiers; Pitney Bowes (automatic stamp and mailing machines), Burroughs and National Cash Register, Addressograph-Multigraph, Dictaphone, Savin Business Machines, Victor Comptometer, Diebold, Inc., and American Regitel.

There can be no question that strongly managed research computer-related companies and others in information processing and office equipment are in a strong sector of economic demand, and relatively immune to recessive business trends. Some of the shares of companies mentioned above were quite resistant on the down side in 1969, and may become market leaders in the 1970's.

CHAPTER XVIII

Real Estate Stocks

MAN'S oldest and most rewarding investment is real estate. In his interesting book *The Territorial Imperative*, Robert Ardrey showed that even among animals there exists a basic instinct to stake out and occupy areas for individual or group use, areas with boundaries apparently mutually understood, and to be resolutely defended against all predators. So it is with man. His first conception of private property was the land he occupied, be it jungle, cave, desert, plain, or waterside. The great early civilizations of the Egyptians, Babylonians, and Persians centered on the possession of rich agricultural land in the valleys of the Nile and the Tigris and Euphrates Rivers. Nations waxed and waned as they acquired, sustained, and then lost control of vast broad land areas across the world.

Most modern wealth derives from land which, from its surface or below, provides our food, oils, minerals and aggregates, the sites for our homes, apartments, factories, commercial office and public buildings, shopping centers, railways, airports, and highways. Wealthy families in all nations gained their power and status through land ownership: the tribesmen and river dwellers of the Biblical era; the Church and the feudal landlords of the Middle Ages; the Vanderbilts, Astors, Rockefellers, and Rhinelanders; and the Texas and Oklahoma oil and cattle barons of the twentieth century.

For the average American today, the ownership of his own home is the most important single investment he will ever

make. Getting the down payment together and paying off the mortgage over the years represents the major investment achievement for some sixty million American families. Thousands have supplemented their home ownership by acquisition of vacation cottages, two-family houses for income and, on occasion, purchase of vacant land for ultimate capital gain.

The impact of a global population explosion upon a limited land supply has created a virtually uninterrupted up trend in the going prices of favorably situated acreage and improved realty all over the world since 1500 A.D.

Another factor constantly pushing up realty prices is the cost of labor. In New York City the cost of a newly constructed (identical) office building increased in the 1960 decade at a rate of roughly 9 per cent a year. This represents the cost of labor and materials, electric and plumbing installations, architects, and so on, but does not include the advance in land prices quite certain to have occurred during this decade (except in slum or ghetto areas). Among unionized workers, those in construction, including electricians and plumbers, today enjoy probably higher wage scales (and fringe benefits) than any other group of people in the labor force—and their annual wage increases have, for years, led the entire labor movement.

In strategically located vacant land, gains in the past twenty-five years have been fantastic. For example, farm land on Long Island in such communities as Hicksville, Farmingdale, Syosset, Plainview (within thirty miles of New York) which sold at $250 an acre in 1945 brings, in 1970, $5,000 an acre for residential locations and up to $100,000 an acre for choice industrial or commercial sites on main highways. Hundreds of thousands of householders residing in suburban homes outside Boston, Hartford, New York, Washington, Chicago, Denver, Seattle, Los Angeles, Atlanta, and other cities, have seen their homes increase in value by 200 to 600 per cent since the end of World War II.

So it is that investment in real estate has been widely acclaimed, not only for comfortable and serene family living, but for assured, and often sensational, long-term capital gains. There are some drawbacks, however. Every homeowner is familiar with the details and the costs of maintenance—painting and decorating, repairs, roofing and plumbing problems, landscaping, flooded cellars, snow and leaf removal, and so on. And of course on all land, vacant and improved, there is the tax factor. Taxes increase without cease, year after year, as the costs of municipal services rise for sewers, schools, police and fire protection, highways, playgrounds.

Therefore, apart from home ownership, millions of individuals with surplus investable funds have rather shied away from real estate because (1) they did not want the details, constant care, and inconvenience of managing real properties, (2) they were not informed or sophisticated in the techniques of real estate operations, mortgages, closings, title searches, zoning, assessments, and so on, (3) they preferred not to own vacant land because of annual and rising taxation, carrying charges (usually), and lack of current income. And finally, real estate is less liquid than savings accounts or marketable securities, so that the bulk of individual investment has tended to go into these investment sectors and into life insurance, rather than into direct realty ownership.

Newer Realty Vehicles

Among corporate and marketable realty securities, not since the buying spree in first mortgage bonds in the 1920's (many of these defaulted in the 1930's and gave realty a bad name) has there been so much market interest in real estate securities. Today there are, in fact, hundreds of opportunities in marketable securities for individuals to participate in income and gain through real estate, without any of the problems of management.

The Real Estate Panorama

Today if you are interested in companies with land holdings, you can get an excellent spread of property, both acreage and improved, by buying such stocks as General Development Corporation, Del E. Webb Corp., Deltona Corporation, Alico Land, Great Southwest, Horizon Land, City Investing, Louisiana Land and Exploration. The big lumber and paper companies hold thousands and even millions of acres of timber land. Companies such as Weyerhaeuser, Boise Cascade, St. Regis Paper, International Paper, Union Camp, and Georgia-Pacific come to mind in this category.

Railroads, many of which got extensive land grants when they started out, provide excellent representation in realty: agricultural, mineral, industrial, and commercial. Union Pacific, Southern Pacific, Great Northern-Northern Pacific are all large landowners. Penn Central is the major stockholder in Great Southwest, and owns as well many large modern office buildings in New York City. Canadian Pacific owns millions of acres producing oil, timber, grain, and minerals across Canada, plus dozens of office buildings and hotels and industrial acreage in the leading cities along its rights-of-way.

Oil and mineral companies customarily own or lease vast acreages of mineral terrain, providing substantial equities in real estate to their share owners. Texas and Pacific Land Trust, Louisiana Land and Exploration, Atlantic Richfield (with a huge stake in Arctic land), Superior Oil, Phillips Petroleum, the Standard Oil companies, and others all provide, in varying degrees, sizable stakes in land.

Hotels and Motels

Many companies have gained great stature by concentrating on shelter and hospitality for the traveler. Because of an

ever increasing amount of leisure time and spendable money and a built-in wanderlust, Americans are traveling more than ever, and mostly by car. They have come to prefer the convenience and facilities of motels to old-fashioned downtown hotels, where bellhops must be palmed, cars parked blocks away, bags toted up ten stories and down long corridors, and fashionable dress is accented.

In the postwar years, and especially in the past decade, motel chains, awash with swimming pools, have blossomed out all over the country, with inter-reservations made in advance, and credit cards galore. Early investors in this field have been handsomely rewarded. Since 1960 market gains of 500 per cent or more have been scored by the common stocks of such standouts as Holiday Inns, TraveLodge, Marriott, Royal Inns, Hyatt, Sheraton (now merged with International Telephone). All of these companies have grown greatly, benefiting from shrewd selections of strategic locations, modern standardized design and construction, uniform quality standards of service, and the development of capable management teams. Equity earnings and growth are achieved by borrowing 60 to 80 per cent of total investment. Motel shares have enjoyed the additional advantage of tax-sheltering depreciation, the long-term upward trend in realty prices across the nation, the sale of heavily depreciated properties for capital gains, and market appraisal of seasoned motel equities at escalating price/earnings multiples.

Other specialized realty companies are those building and operating modern metropolitan office buildings, such as Uris Buildings and Tishman, whose common stocks are listed on the NYSE. Here the attraction lies in leveraged equity ownership of sleek urban structures occupied under long-term leases by many of the most distinguished corporations in America. The subject real property is choice, gilt-edged leases assure dividend payments, and the cost to duplicate land and building has, in the past decade, increased market values of prop-

erties at a minimum rate of 12 per cent annually. These firms make money starting with profits from construction, and moving on to rental income, sophisticated handling of the depreciation account, and occasional sales at great gains.

Home development companies such as Del Webb, Cavanagh, General Development, and Deltona have done well by buying extensive raw acreage and subdividing, by improving the land by grading roads, sidewalks, sewers, utilities, and by the building, mortgaging, and insurance of homes and the receipt of substantial interest income from unpaid balances on building sites and construction costs. Some land or home development companies have, in the past, inflated these annual earnings by reporting as income the total sales prices of plots sold, even though cash received in a given year might be only 10 or 20 per cent of the total contract price. More conservative (and preferred) accounting calls for reporting as income only the cash (and not the long-term notes received) on property-purchase contracts in a given year.

Real Estate Investment Trusts

A quite new vehicle for individual equity investment in attractive and often sizable real estate holdings is the real estate investment trust. REIT's are not corporations, but trusts. They have gained wide popularity since the passage of the Real Estate Investment Trust Act of 1960, which provides for broad exemption from taxation under certain conditions: (1) at least 90 per cent of net income from the trust must be paid out each year to share owners; (2) trust properties must be managed by "outside" contractors for specified management fees; (3) trust must have 100 share owners or more with no individual, or a group as small as five, owning over 50 per cent of the trust shares; (4) at least 75 per cent of the assets owned must be in real estate, and 75 per cent or more of annual gross income of the trust derived therefrom. Income

realized by the trust from capital gains is limited to 30 per cent of gross. (This provision is designed to prevent trusts from becoming speculative footballs.)

With these provisions, REIT's are well designed to generate above-average income returns, because they are privileged to pass on, directly to share owners, net revenues from operation undiminished by federal taxes. The income distribution is of course taxable to individuals as ordinary income, but capital gains, if realized, are reportable as long-term gains (25 per cent maximum). Under these tax-sheltered arrangements, a number of trusts provide their share owners with yields of 8 per cent or more on market prices. Accordingly, REIT's, because they pay more generous returns than are available on most common stocks, are attractive to older people in retirement, or to others who have investment income as their primary objective. Capital gains are a built-in possibility. These REIT's provide a useful vehicle by which an ordinary investor can acquire an equity position in improved multimillion-dollar properties, without any of the details and complications of management, maintenance, or accounting.

There are now well over one hundred of these REIT's on the market. A few have their shares listed on major exchanges; the rest trade in the over-the-counter market, and the larger issues are quoted regularly in the bid-and-asked sections of major metropolitan daily papers.

Two Varieties

In practice these REIT's have become divided into two categories—equity and mortgage trusts. The equity variety concentrates on the ownership of real property. It collects rentals, pays out real estate taxes and costs of maintenance, and reduces mortgage debt by annual amortization, thus building up share owner equity year by year.

Important to these equity trusts is depreciation. To show

how this benefits share owners, we'll use an illustration. Assume that our trust has just purchased an ultramodern high-rise luxury apartment building for $2 million. This generates a gross annual rent income of $350,000. Costs of running the property, including real estate taxes, supervision, and maintenance, are $100,000 a year. There's a $1 million mortgage requiring $60,000 annually in interest and $15,000 in amortization—$75,000 in total.

Deducting the maintenance and mortgage payments, totaling $175,000, from the rental income of $350,000, leaves $175,000. This figure is referred to as "cash flow" available theoretically for distribution to share owners. Only a portion of this income is taxable, however, because on the income tax return the trust may properly deduct (1) the $100,000 in expenses, (2) the mortgage interest $60,000 (but not the amount by which mortgage debt is reduced), and (3) annual depreciation on the building, $100,000. Now, going back to the gross rental income of $350,000, allowable deductions for tax purposes listed above leave as income *after taxes*, $350,000 minus $260,000, or $90,000.

In practice, most trust managements would distribute to share owners considerably more than the $90,000. It is common for trusts to pay out to their share owners a good percentage or even the entire amount of depreciation each year. This produces a generous return to share owners, and much of this distribution is tax-exempt. Income distributed may be from 20 to 90 per cent tax-exempt. Thus, these trust shares appeal not only to individuals in quest of above-average returns, but to persons in high tax brackets as well. In certain cases, new buildings may use an accelerated rate of depreciation which further increases the portion of revenues available for tax-free distribution.

Among the older, better-known equity trusts are Real Estate Investment Trust of America, U.S. Realty Investments, Bradley Realty Trust, Greenfield Real Estate Trust. Newer

ones are First General Real Estate and Resources Trust, Franklin Realty, Union Trust, and Realty, Inc. Trust. The recent new issues have been characterized by quite a few "package" offerings: a share of stock plus a five-year warrant offered as a unit. Some of these issues appear quite promising to income-minded investors in the common stocks—and to speculators in the warrants, which might prove highly volatile.

Typical holdings of REIT's include shopping centers, high-rise apartment houses, garden apartments, office buildings, and commercial properties. In REIT's, as in every other investment situation, major emphasis should be placed on *management*. If properties are bought "too high," poorly located, sloppily built, and miserably maintained, your trust has bad management, and may prove a headache instead of a "happiness." See to it that the people running your trust are of high caliber, have had a good "track record" in realty purchase, operation, supervision, and sale. Every so often an unsavory character or group of characters may collect some properties and launch a trust. In that case, watch out! If it's a new trust issue you're looking for, get, and comb over, the prospectus and place considerable reliance in the investment banking firm and underwriting group sponsoring the new issue. These real estate shares may well provide you with a fortunate entry into share ownership of some fine properties generating excellent income, tax shelter, and capital gains potentials. But investigate any and all before investing!

Mortgage Trusts

The second category is the mortgage trust. These are designed not to own or acquire land or buildings, but to invest in diversified mortgages on such property. They raise, at origin, a certain amount of equity capital (often offering common stock and warrants in a unit) and (as these prospectuses may spell out) plan to borrow substantial additional

sums for the purpose of buying mortgages. In conduct of their business, they become quite like savings banks or savings and loan associations in that they use their funds to invest in securities paying a much higher return than their own costs for money, gleaning a profit from the difference. For example, a mortgage trust might raise $10 million in equity, sell $20 million in 7½ per cent debentures, and invest the proceeds in construction and development realty loans paying 14 per cent annual interest. The difference between 7½ per cent (debenture) and possibly supplementary bank loans at 8½ per cent and the 14 per cent on the mortgage investments can obviously generate attractive profits.

As a matter of fact, because mortgage trusts benefited handsomely from the "credit squeeze" of 1968–1969, they have supplied credit to builders and land developers when other sources were not available—and they have prospered. In common with equity trusts they pay out 90 per cent, and thus escape federal income taxation. They do not, however, benefit from the depreciation charge advantages, but make up for this by borrowing heavily and creating high leverage ratios for their share owners.

Actually, in the markets of 1969, new issues of mortgage trusts have been hotter than equity trusts, and at least six issues rose 40 per cent or more above their subscription prices, within thirty days of public underwriting.

Among mortgage trusts to consider are (entirely without recommendation or endorsement) Continental Mortgage, First Mortgage Investors, Southeastern Mortgage Investors, Western Mortgage Investors (all traded OTC), and (newer ones) Medical Mortgage Investors, Diversified Mortgage Investors, Fraser Mortgage Investment, Midland Mortgage, and Larwin Mortgage Investors. Some of these have commanded P/E multiples of as high as 35 or 40, and frankly, at these appraisals, they look pretty high! Earning power here is a function of two factors: (1) shrewd, perceptive, and

experienced management and (2) continued high interest rates. Most construction loans (commanding the highest rates) are short-term (six to fifteen months), but if the loan is made to a sleazy builder, it may default and the trust may "get stuck with" the problem of completing a property and securing rentals for it. This is where managerial competence comes in—avoiding "turkey loans" and weak sister borrowers. In eight years (1961–1968), First Mortgage Investors lost less than one tenth of 1 per cent on over $500 million of mortgages in its portfolio!

In the inflationary era in which we live, probably the two most desirable investment sectors are in real estate and common stocks. Realty equity and mortgage trusts represent a combination of both real estate *and* stocks, and no doubt deserve consideration by perceptive investors whose goals may variously be high income, tax shelter, long-term gains, and satisfactory marketability. You will find that the difference between a good trust and a "so-so" trust is in management—so seek out the good ones!

CHAPTER XIX

Petroleum Investment

PETROLEUM (oil and natural gas) now provides about 55 per cent of the world's energy. In view of steadily rising demand and the fact that oil is a "wasting asset"—once removed from the ground and used, it is gone forever—there is an urgent need to locate additional reserves. This continuous rise in demand and the resulting global search for new fields have made oil one of the leading growth industries of the twentieth century. In the 1970 decade this growth is expected to continue, but at a somewhat slackened rate.

The oil business has been an exciting and a rewarding one because, in seeking oil, it has always been possible, with relatively little money and a lot of luck, to make a fortune from the drilling of even a single well (also to lose one's shirt on a dry hole).

The vast companies in the oil business today have still left ample room for small individual drillers, partnerships, and independent drilling companies. This is so because the major integrated oil companies now prefer to buy proven production and reserves rather than incur the costs of exploration. Also, they can buy this "production" (oil in the ground) on attractive terms by the offer of a relatively small amount of cash, with balance of payments made out proceeds of oil and gas surfaced. Producers in turn have been willing to sell their wells because proration in many states has greatly extended

the years of "well life" and, accordingly, reduced annual cash incomes to owners.

The petroleum industry is divided into four separate divisions: production, transportation, refining, and marketing. The big companies performing all four operations are called "integrated." Integrated companies would include the giants: Texaco, Standard of New Jersey, Shell, Phillips, Mobil, and Gulf. There has been a steady long-term trend toward integration. To illustrate, in recent years, Amerada, a producer, was merged with Hess Oil, a marketer, and Standard of Ohio, a refiner and marketer, joined forces with British Petroleum, an international producer.

Oil is found all over the world. The richest present fields are in Texas, Oklahoma, California, and off-shore Louisiana, West Canada, Venezuela, the East Indies, Iran, Iraq, and the Arab sheikhdoms, and North Africa, principally Libya and Algeria. Newest finds are the estimated fifteen billion barrels on Alaska's North Slope, and in Nigeria and Australia. Ahead, great production is anticipated from extensive oil-rich tar sands of Athabasca (Canada) and from oil shales of Colorado, Utah, and Wyoming. These three states may produce thirty billion barrels of oil (this is about the total of United States estimated known reserves as of September, 1969), if economical methods of extraction can be perfected.

While the shares of elegant integrated oil companies have been blue chips and excellent dividend payers for years, a number of new producing companies have come on stream within the past decade. Some of these have grown amazingly and richly rewarded their early stockholders. These are producing companies that sponsor oil-drilling programs. They get most of their exploration money by offering partnerships in drilling for oil, attractive to high-incomed individuals who benefit from significant tax shelters provided. For example, a man in the 60 per cent tax bracket can invest, say, $10,000 in a drill program in a given year, and have $8,000 of it come

from money otherwise paid out in federal income taxes. For the $10,000, he gets his proportionate share of 50 per cent of all the oil and gas surfaced and sold from the well or wells drilled. The sponsoring company gets the other 50 per cent for putting up (in this representative case) only 15 per cent of the money, but is responsible for the entire operation, marketing the oil and gas, and preparing accurate accounting reports for tax purposes. Over $1 billion in these drilling programs (offered by prospectuses) was scheduled in 1970.

Naturally these programs are rewarding only if the drillers strike oil. By confining their operations principally to offset drilling (near where producing wells already exist), competent companies may "bring in" as many as six wells out of ten. Companies that have starred in this field would include King Resources, Clinton Oil, White Shield, McCullogh Oil, Prudential Funds, Damson, Butte Drilling. Early entrants have prospered. Clinton Oil common sold at $1 a share in January, 1967, and, after a three-for-one split, reached the equivalent of $36 in 1969. White Shield, $1 in 1967, sold to $54 in 1969. One of the biggest swings in oil stocks was Occidental Petroleum from $.25 a share in autumn, 1958, to three shares worth $120 in 1968.

All aggressive investors should own some oil securities. The growth rate in the 1960's was over 7 per cent annually, and return on invested capital averaged better than 11 per cent.

Individual Companies

Selections might be made from the companies mentioned above, and such others as Royal Dutch, Superior Oil, Pacific Petroleum, Canadian Superior, Clark Oil, Apco, Asamera, Home Oil, and for long shot speculation, some of the lively Australian drilling companies. Decide on the kind of oil investment you want: a mature dividend payer, an eager driller, a

natural gas producer, or a smallish company that may benefit if acquired by a major.

General Comments

The oil business, fantastically profitable in the past, does have a few clouds on its current horizon. In 1970 the oil depletion allowance was reduced from 27½ to 22 per cent. This reduces the cash flow of oil companies and may make them less enthusiastic in their future search for oil. Offshore drilling may become more expensive or curtailed, as oil companies are held accountable for pollution of waters from drilling leaks. In late 1969, dozens of square miles off Santa Barbara, California, were fouled by a leaky underwater well. Oil on the loose can stain beaches, disturb marine ecology, kill fish, and destroy oyster and shrimp beds; and it's not pretty! The same problem exists in the case of ocean tankers such as the *Torrey Canyon,* which can pollute wide areas, if they break apart and lose their cargo because of storm or accident.

Furthermore, it has been estimated that about 60 per cent of all metropolitan smog is created by motorcar exhausts. This situation has already prompted a program to eliminate lead additives to gasoline. Experts say that natural gases—methane and butane—insure more complete combustion in motors (and thus minimize air pollution). This may stimulate a swing away from gasoline to natural gas. Oil refineries may pollute the air. Other energy sources may in due course be found, and there is considerable research going on in battery-driven electric vehicles.

Finally the costs and prices of petroleum and its products are by no means stabilized. The sheikhs of Araby have constantly "upped" demands for their shares of the "take"—from 25 per cent originally to above 50 per cent in 1970. Hostility to the foreign interests that provide the money and know-how

for drilling, and the transportation and markets for the oil, is an increasing phenomenon in many nations. Old political regimes (that negotiated the oil deals) are thrown out and new leaders become grabbier. Outright appropriation has taken place in Venezuela, Mexico, Peru, and Iran.

In the United States the price for crude oil is tied to an import control act, passed in 1959, whereby oil entering this country from abroad is limited to certain amounts. If import oil quotas were raised substantially, and cheaper foreign oil admitted in greater volume, the price for domestic crude might decline sharply, reducing the profitability of American oil drilling. Our national policy in the past, however, has been to encourage and protect American oil exploration and production, so that we might thus not be dependent on imported supplies in event of war or other national emergency. Right now, our known stores of natural gas are running dangerously low, and we have only enough proven gas reserves to last for about eleven years. This situation arises from price regulation of natural gas in interstate commerce by the Federal Power Commission, and setting of rates so low as to discourage gas exploration and drilling.

The petroleum industry has been a golden field for investment during this century. It will probably continue so.

CHAPTER XX

Comment on Assorted Industries

THIS chapter contains capsuled investment-oriented comment on a series of industries.

Retailing

This is a huge industry characterized as defensive because retail sales hold up better in economic downspins than in many industrial sectors, such as motor cars, machine tools, railway equipment.

Best known are Sears Roebuck, with its outstanding record; Marcor, stodgier in performance; J. C. Penney, among the smartest merchants in the world; and W. T. Grant. These are the great chain outlets and the first two, majors in mail order.

Among department stores, Garfinckel, Brooks, Macy's, Gimbels, Federated Department Stores, Associated Dry Goods, and Interstate have all distinguished themselves. Main downtown stores are in a declining phase, but the newer suburban branch stores have prospered greatly. Department stores are highly seasonal, gleaning 40 per cent or more of annual profits in the last quarter of each year. A problem has been to secure and maintain effective and courteous sales personnel.

Long-term commitments in Macy's, Interstate, and Garfinckel should prove a sound way to invest in department stores.

Variety stores have been moving forward and challenging the earlier leadership of Kresge and Woolworth. Specialists in jewelry, such as Zale and Busch's, have grown amazingly. These depend heavily on credit sales, and generate excellent earning power from high-interest returns on debit balances.

Food Industry

This economic sector has undergone massive changes in the postwar years. Except for neighborhood delicatessens, open late and on Sundays, the "corner grocer" has disappeared and the business has moved solidly into the supermarket orbit. A & P, the pioneer and still massive, has appeared less progressive than other and newer chains in food retailing—First National, Safeway, Winn-Dixie, Kroger, Food Fair, Bohack, and others.

In meat production the leadership of Swift and Armour has been challenged by newer meat companies such as Iowa Beef Packers which bring livestock to central points and convert it, not into whole sides of beef, but into roasts, steaks, and loins cut down to the retail meat market level, and specially packaged and shipped.

Food Makers

Among the great food makers, General Foods, Standard Brands, General Mills, and H. J. Heinz stand out, followed by Consolidated Foods, Borden, Corn Products, National Dairy Products, Stouffer, and Quaker Oats. Specialists would include such as Sara Lee, Frito-Lay, and Gerber. These, for the most part, represent rather mature investment-type companies, durable in dividend payments, strong financially and defensively, and operating on rather low profit margins. The blue chip of the group is probably General Foods, and in

processing and international marketing H. J. Heinz would be given a high rating.

Along the way, you would have to include those food-dispensing companies that have grown big via the franchise route: McDonald's, Wetson's, Kentucky Fried Chicken, Carvel, Howard Johnson's, and so on. A notable phenomenon, across the board, has been the fabulous increase in convenience foods, frozen and instant foods, and the rapid reduction in number of chefs, clerks, and waiters because of mass merchandising of ready-to-eat foods. Most rapid growth in sales and profits, and in rewards to stockholders, has occurred among the "roadsiders," the innovators and franchiser. It's incredible that, in the 1960's, the pizza arose to challenge the position of the hot dog and hamburger in the "quick-eat" circuit.

Ahead lie continued gains in convenience and instant service foods, and great progress in compact synthetic foods—soya and fish meal—that may feed the submerged, semi-starving millions living in anguished backward nations.

Electronic Entertainment and Communication

Serving most effectively the leisure and entertainment field are the electronic wonders of the mid-century—hi-fi, television, tape recorders, CATV, and pay TV.

We need not elaborate on TV, which has made great set-manufacturing companies out of small corporations in a quarter-century: Admiral, Magnavox, Zenith, Motorola. Equally, the broadcasters have zoomed: NBC (RCA subsidiary), CBS, American Broadcasting, Metromedia, Cox, Corinthian, Storer. Even though franchises are time-limited and seasoned broadcasting companies might conceivably be replaced by newcomers (under regulatory procedures of FCC), broadcast companies have done exceedingly well. The future of CATV has been clouded economically and polit-

ically, and pay TV, while a potential winner, seems to have a lot of hurdles still to be overcome.

Cartridges and Tapes

The brightest star on the electronic entertainment horizon seems to be cartridges and cassettes. For seventy years, disk records ruled the roost, and sales of these in 1968 totaled $1.1 billion. Discs lowered their speeds from 78 to 45, then to 33 RPM. Then came the invention of magnetic tape and the introduction of tape recorders—a little clumsy and hard to thread—but an innovation withal. In 1962 somebody introduced the tape cartridge, a unit the size and shape of a small book which enclosed the tape, played by insertion into an electric player. The tape played in loops—first with four tracks and then eight tracks. When you finished the cartridge recording, you were back at the beginning. This proved a handy portable gadget and was adapted for installation into motorcar dashboards. You could thus drive along the road and hear specially recorded symphonies, rock and roll, or even lectures and educational stuff as you traveled.

Next came the cassette, which further compacts the tape enclosure into a plastic box no bigger than a deck of cards. The tape unwinds from one spool onto another within the box. Cassettes gained great acceptance, bringing enhanced earning power to North American Phillips (the patent holder), Ampex, Audio Magnetics, Inc., Minnesota Mining, and GRT in magnetic tapes. Cartridge players and cassettes are made by RCA, General Electric, Westinghouse, Lear Jet, Sony, Zenith, Magnavox, CBS, Emerson, and Avnet.

Newer entrants in the field are National Tape Distributors, whose stock came out at $7 in 1969 and passed $50 within two months; Cartridge Cassettes, which moved from $4 to $13 in 1969; Success Motivation, Inc., marketing educational courses in cassette form; and Sarex, maker of cartridges, cas-

settes, splicing machines, and systems for making magnetic tape.

No one can tell which may become the "Xerox" of this group. GRT, Cartridge Cassettes, Sarex, and Success Motivation, Inc. have an eager look about them. Ampex is a major in all departments—tapes, cassettes, boxes, and so on.

Motion Pictures

This industry has been a king-sized yo-yo—big in the 1940's, declining with the advent of TV, and in 1968–1970 coming back in new forms. The big companies, like Twentieth Century-Fox, Loew's, Columbia, benefited greatly from sale of old library films to TV. New films, many of them super-costly (*Cleopatra*) didn't pay off; substantial losses were incurred, big studio properties became white elephants, and unheard-of new companies made "zingy" pictures on low budgets in faraway places. Finally sex, crudity, and nudity became rampant, and Italian and Swedish films had spectators standing in long lines to pay five dollars for two hours of leering and ogling. Loew's became a hotel chain, Twentieth Century-Fox entered new fields, and some of the sprightliest earnings were reported by new producers making films virtually on a shoestring. The most significant recent development has been the making of films specifically for TV showing.

New movie playhouses have been built outdoors, and in suburbs and shopping centers. The outstanding performer in this area has been General Cinema Corporation.

Paper

Paper companies have been wide swingers over the years, earning a lot of money (1956 and 1965), then over-expanding plants, entering doldrums, and slowly returning to high profitability. In 1970, paper stocks looked okay for the long

pull, as demand caught up with earlier overexpansion, profit margins improved, mills operated at near capacity (most break even around 65 per cent), and demands for throwaway paper products—cups, pails, containers, napkins, clothing, hospital uniforms, and so on—reached new highs. Furthermore, paper companies, many of them with large timber acreages, became valued as inflation hedges. Paper stocks are generally cheap at the lower edge of ten-year average price/earnings multiples.

Representative issues include International Paper, St. Regis, Great Northern and, in specialties, Hammerill.

Machinery

The big machine companies—Mesta, Cincinnati Milling, Giddings & Lewis, Brown & Sharp, Koehring, International Harvester—have gained international stature but have seldom merited high P/E multiples because of their cyclical nature and their tendency to reduce dividends in time of recession. Many machine stocks have sold regularly at prices below book value. Stocks in this group become most attractive in early phases of business booms, and may appear worthy of consideration today, if only because of the value of their manufacturing plants on a reproduction-cost-new basis. Giddings & Lewis, International Harvester, and Cincinnati Milling, which has just changed name, would seem to be preferred.

Drugs and Cosmetics

In this classification we are impressed with old-line pharmaceuticals: Merck, Smith, Kline and French, G. D. Searle, and Upjohn. These surged in 1955–1956, exhibited good long-term growth, but paused or declined in more recent markets as certain of their products were alleged to have unfavorable side effects, or as some government agency became

critical of pricing, marketing, and/or research procedures.

On a stronger up curve has been the cosmetic industry. The average American woman spends $21 a year on cosmetics and fragrances, and this is an extremely dependable outlay. Ladies will forego a trip to the beauty parlor rather than do without cosmetics and perfumes. Increasingly, too, new "musts" are added—eye makeup, false eyelashes, hair tints and dyes, and now wigs for many occasions and moods. The desire of women to "look good" and keep competitive socially creates a powerful and rising demand sector in our affluent society. Cosmetics are growing at the rate of above 10 per cent annually. Men are getting into the act now with their demands for deodorants, after-shave and hair lotions.

Big in the field are Lanvin-Ritz, Revlon, Elizabeth Arden, Max Factor, and Fabergé, Inc. and newcomers such as Cosmetically Yours. The biggest and most profitable of them all is Avon Products, which consistently sells at a P/E multiple above 30. Growth is predictable here except in event of a war or an unemployment rate above 6 per cent. Cosmetic companies show excellent returns on stockholders' equities.

Oceanography

There has been great fanfare about oceanography as an exciting new "concept" area for investment—food and minerals in rare profusion from the sea. This all sounds great, but except from offshore drilling, profit realizations seem remote. Much research and probing will no doubt take place, but we've got to curb our ocean pollution, agree with the countries of the world about national offshore limits (12 or 200 miles), and decide who has the rights to the ocean's floor, before we can define any major corporate investment. Santa Fe International is pretty good at offshore oil drilling.

CHAPTER XXI

Letting Someone Else Make the Investment Decisions or Invest for You

IF you desire to invest in common stocks and have surplus funds for that purpose, you may prefer to have someone else do the actual investing for you. Hundreds of thousands of people, in fact, have neither the time, the inclination, nor the background of knowledge about securities and markets required for successful investment. But they still want to own stocks. For them there are several useful alternatives.

Stock Exchange Firms

Many stock exchange firms will handle "discretionary" accounts in which securities are held in custody and the client gives the firm permission to buy and sell for his account and instruction to supply the necessary trading records for income tax purposes. Such an arrangement may prove satisfactory if the brokerage firm enjoys a fine reputation and provides strong research back-up for the buy and sell decisions it will make. Before opening such an account, you should outline, most explicitly, your investment objectives (growth, income, speculative profits, a balanced portfolio, and so on), and trading for your account should be done with these aims specifically in mind. There have been occasions when an eager-beaver customers' broker has overtraded (bought and sold more often than was either prudent or necessary) and placed

too large a portion of the account in stocks with high speculative risks. You must have complete confidence in the integrity and the professional competence of the broker (firm and/or individual) you deal with. Moreover, if the discretionary account does not show satisfactory results over a period of time, you should probably discontinue it.

Financial Services

Many of the leading financial services, such as Moody's, Value Line, Standard and Poor's, not only provide investment counsel, but manage portfolios as well for annual fees. The charges made are geared to the size of your account. The actual securities are usually kept in a bank or brokerage custody account in your name. You then authorize the bank or broker to accept buy or sell orders given by your investment service (under authority from you) and to receive or deliver securities promptly, as required. Because the investment service is an independent financial adviser, interested in building your account in a satisfactory manner, you should get good results in this way. The service, moreover, derives no share or benefit from brokerage commissions charged for execution of orders, nor from the volume thereof. Certain financial journals such as *Forbes Magazine, Financial World,* and others also have special departments for portfolio management under fee arrangements.

Banks

Commercial banks with trust departments, and trust companies, do a large business in the management of portfolios and custody of securities. These institutions are apt to be quite conservative in their security selections, bearing in mind revered precepts relating to the preservation of principal. The United States Trust Company in New York and the Baltimore

Trust in Baltimore, Maryland, are excellent examples of banking institutions that specialize in supervision and management of portfolios of wealthy individuals, and of pension and endowment and trust funds. Increasingly, these bank fiduciaries are getting more imaginative in their security selections. Many of them have favored well-positioned growth stocks such as Xerox, IBM, Polaroid, American Hospital Supply, Memorex.

Investment Counsel

Other leaders in investing for others are investment counsel firms such as Loomis & Sayles; Scudder, Stevens and Clark; and Templeton, Dubbrow and Vance. The better-known firms in this field have done quite professional jobs in security management, charging annual fees (tax-deductible) that may equal ½ of 1 per cent of the total market value of a stock portfolio. Other firms, such as those that operate hedge funds, may charge as much as 20 per cent of profits realized in a calendar year. If there are no profits, then the fund manager gets no fee! Some think this "percentage of the action" basis is good because it compels the manager to make money, or he won't get paid. Others think this arrangement encourages speculation in volatile "swingers" to get unusual results, and may notably reduce the quality and safety of holdings over a period of time.

Finally, there are over three million Americans who find a solution to the problem of security supervision by buying investment company or mutual fund shares. In these, by the purchase of a single certificate, investors can own a fractional percentage of a professionally managed security portfolio, widely diversified, frequently among one hundred or more different securities in many industries. Owners of these investment company shares are relieved of all decisions as to when

and what to buy or sell, leaving these matters to men experienced in the business who are continuously supervising portfolios.

Closed-End Companies

There are two main types of investment companies: closed-end companies and mutual, or open-end, funds. The investment company shares are fixed in number and not increased, except by stock dividends or corporate authorization to enlarge the capitalization. Investment companies are managed by a board of directors who elect the president and other officers responsible for managing the portfolio. A number of these closed-end investment companies have been in business for a long time and have performed quite satisfactorily, although some have perhaps been ultraconservative in their security selections. Representative issues are Tri-Continental Corporation, Atlas Corporation, Alleghany Corporation, Adams Express, Lehman Corporation, Dominick Fund, and Madison Fund. All of these are listed on the NYSE, and you may trade in these shares exactly as you would in any other marketable security, paying standard brokerage commission on any purchase or sale.

Mutual (Open-End) Funds

Mutual funds have the same general investment characteristics as closed-end funds. They seek to build a portfolio composed of twenty-five to several hundred different and broadly diversified securities, to supervise it with diligence and prudence, and to strive for good results in enhancement of income and market value, over time.

Management of a mutual fund is customarily provided by a separate management company which may charge around

½ of 1 per cent of portfolio value annually for its supervisory services. The management company may be a sales company as well, promoting and distributing fund shares through broker/dealers, with a gross sales commission possibly as high as 8½ per cent. Funds that charge commissions are called load funds, while those that do not are called no-load funds. The latter category is usually operated by an investment counsel firm.

Mutual fund shares are bought at net prices, either (1) the asset value of portfolio on a given date divided by the number of shares then outstanding, or (2) asset value plus a commission.

When it comes to selling your mutual shares, you offer them back to the company, and receive the net asset value per share. Thus the sales charge made at the time of purchase is a "round-trip" commission, because there is customarily no charge made when you sell. These asset values and offering prices of the larger and better-known mutual funds are listed daily in major metropolitan newspapers in the OTC section.

A generation ago, most mutual funds possessed a broad list of blue-chip securities, and held on to them, unless visible adverse factors suggested the disposition and replacement with other issues of superior quality and greater promise. Increasingly, however, mutual funds have vied with each other in the matter of performance—the quest for sizable gains in asset value each year. Funds striving for top "performance" ratings may turn over as much as 75 per cent of the entire portfolio in a single year in a sophisticated effort to build capital gains by shrewd trading. In 1968 several funds reported capital gains of 50 per cent or more for the year, but in 1969, a bearish year, several of these go-go funds were out-performed by those investing in a more traditional and conservative manner.

Diversity

There are mutual funds for every purse and purpose: funds for income, for growth; balanced funds, bond funds, and a series of specializers such as Chemical Fund, Energy Fund, Technology Fund, Oceanography Fund; and quite speculative hedge funds which may borrow on securities and "sell short" in the market. You can buy any of these shares outright and in almost any quantity (sometimes benefiting from a lower commission charge if you invest $25,000 or more). You can also invest by putting in so many dollars a month, and build your holdings under arrangement for reinvestment of dividends and gains. The dividend check you get will be subdivided into regular dividend income and capital gains, so that you can report income with complete accuracy for income tax purposes.

Criteria for Selection and Preference

Mutual fund portfolio managers are the professionals to whom you delegate the supervision and management functions. You can find out about the fund that interests you by getting a prospectus which lists securities currently held, and recounts results—capital gains, dividends received and paid in the preceding year or years. Results achieved and securities held will tell you much about the fund, but you must remember that no matter how well a fund did last year, there is no assurance that it will duplicate the performance this year.

In general, the middle-sized funds, $50 to $100 million, may turn in the best performances. Do not be bemused by results of a single year, as a given management may have sold out shares at the year end just to "look good," when, in fact, it might have been far more rewarding to have held issues sold for a longer period.

Merits of "Mutuals"

Well-managed mutual funds can do a splendid job for investors who want to own, but not to manage, common stocks. These funds are now being tied into long-range programs combining equity with insurance. Some plans call for buying ordinary life insurance, and borrowing on its cash value to acquire stocks; others do it just the other way around—they first buy for you the fund shares and then arrange loans on their values to pay life insurance premiums. These plans are interesting and may prove rewarding, but they can backfire if the stock market sells off badly.

Mutual funds do make possible your getting continuous professional management, broad diversification, good representation in common stocks, and most important, assurance against tragic loss in any single security. In general, rely on the managements that have good records, but do not expect sensational results—like a share that goes from $5 to $25 in a single year.

It is apparent that with the big brokerage firms taking less interest in small investors, their program will be more and more to sell them mutual funds. Furthermore, these "mutuals," buying and selling shares in ten, twenty, and fifty thousand share lots, already account for about 35 per cent of NYSE trading and exert a powerful influence on the quotations of active issues, just by the volume of buying or selling they can inject into a single day's trading. What the mutuals "think" may have a powerful influence on the share prices of the future.

For the speculative-minded there are also shares in the management companies available in the OTC market.

CHAPTER XXII

Changing Patterns of Investment and Guidelines for the 1970's

PERSONS planning successful investment programs in the 1970's will require an approach notably different from the practices of earlier decades in this century.

In the 1920's, only a relatively small sector of the population had sufficient surplus funds for investment in securities. These opulent ones devoted themselves mainly to bonds, preferred stocks, and mortgages, and even in the hectic autumn of 1929 there were no more than a million stockholders. Institutional and endowment investment was confined almost entirely to fixed-income securities.

Blue chips of 1929 stocks were General Electric, General Motors, Woolworth, AT&T, New York Central, Pennsylvania, Union Pacific, Allied Chemical & Dye, Standard Oil of New Jersey, Coca-Cola, United States Steel, Consolidated Edison, Procter & Gamble, Eastman Kodak, and Pullman Company. IBM, Xerox, and Polaroid were nonexistent, and the glamour and scientific stocks of the late 1920's were Radio Corporation of America and Technicolor.

The Great Depression changed the script. Stocks got a very bad name, and pyramided utility holding companies, North American Company, Cities Service, American Power & Light, Middle West Utilities, and Associated Gas and Electric utilities, power and light, plunged like loons in a lake and became nasty names.

In the early 1930's bonds representing liens on over one-third of railway mileage in America were in default, and railway bankruptcy and reorganization were commonplace. Among other fixed-income securities, real estate mortgage bonds distinguished themselves on the downside, defaulting in droves. Millions lost their jobs, and 25 per cent of the work force was unemployed. Folks on the farm were no better off, and in a series of Midwestern states, as many as 40 per cent of farm mortgages were in default because of distressed market prices for farm crops and animals. Stock buying was unfashionable for the few, and financially impossible for the many.

Pre-War

The markets began to revive in 1933–1934, only to get soggy in 1937, as a new depression, or at least recession, moved in. The period 1933–1937 was evidenced, however, by a sizable economic recovery that created hundreds of thousands of new investors. They, and oldsters returning to the market, were a cautious lot—and their major market entries were into defaulted railway and real estate bonds and industrial preferred stocks with accumulated back dividends. Notable price gains were recorded in these categories, and many railroad bonds, bought at fractions of par value, not only became sound again but often paid off more cash in interest arrears than the bonds had cost.

Increasingly, however, during the later 1930's a return to confidence in common stocks was observable. In particular, mutual funds, the successors to ill-fated investment trusts launched "before the crash," became popular. Older investors who had lost much by speculating in individual issues seemed to think that professional management of a diversified portfolio of securities would produce better results than they could realize on their own, and younger people investing for the first time were impressed with "owning a share of America"

through regular purchase of mutual fund shares. Most of the funds featured blue-chip investments, stressing dividends and income. Trading in and out, or major turnovers in portfolios in any year, were uncommon. Many were "balanced" funds containing both bonds and stocks. The cult of "growth" had not yet emerged.

World War II

Many economists believe that World War II and the upsurging business we did in military hardware and supplies with our (later) allies kept us out of a depression. In any event, by the time we entered, in late 1941, our business was humming. Employment was in a powerful up trend. In due course, we had to allocate both labor and materials, and we rationed meat, gasoline, nylon, and other things. Stock markets were relatively inactive, and all good citizens were exhorted and expected to buy government bonds to finance the war. Tens of millions did, thus accumulating capital and building the resources for vast consumer purchasing and the entry of millions of new investors into the postwar security markets.

Everybody seemed to expect a postwar depression, but it never occurred. Instead, people began to expand business, build houses, buy motorcars, and travel on the airlines. In 1946 airlines stocks were favorites in the stock market, and many issues doubled in price. A long-term government policy, moreover, did much to assure expansion in the stock market. The policy was to maintain low interest rates (3 per cent or less in 1946–1947), to stimulate construction and business activity.

Bonds Forgotten

Bonds became unrewarding for individuals. They could get better returns on preferred and common stocks, and also get

in line for capital gains from equities. Millions began to cash in their war bonds, putting the proceeds into new homes, appliances and furnishings, and "the market." On the immediate horizon was television—a rarity and luxury in 1946, but an industry so prepotent that by 1970 four families out of five owned a TV set and tens of thousands had made fortunes investing in Zenith, Magnavox, Motorola, Raytheon, CBS, and related electronic companies.

By the 1950's there had arrived a whole new generation that had never experienced a depression, and the stock market took on new luster. Exciting new industries came on the scene —electronics, in which the transistor displaced the vacuum tube; copying machines sparked by Xerox; sophisticated office equipment, with IBM forging ahead; wonder drugs, bringing acclaim to Pfizer, Merck, Searle, and others; photography, becoming everybody's hobby, bringing virtuosity to Polaroid; and life insurance stocks, which soared.

These new industrial breakthroughs brought trading zest and money to the stock markets and notably altered the accepted patterns of investment. Older-line sedate blue chips seemed less attractive and gainful, and the clamor from "growth" stocks pervaded the market. Because certain stock issues, esteemed in earlier years, had become stagnant, individuals and institutions in great numbers decided that increased activity in investment portfolios was desirable—to sell issues that seemed to be going nowhere, and replace them with animate ones. Whereas changes exceeding 4 per cent annually in total portfolio had been historically rare among institutional investors, more active trading became fashionable and a more aggressive investment philosophy emerged.

To illustrate, the endowment funds of fifty representative colleges and universities, in 1946, were invested over 65 per cent in fixed-income securities, bonds, preferred stocks, and mortgages.

Bank trust officers, historically dedicated to preservation

of principal, opted for more common stocks. They developed, moreover, "the 5 per cent technique"—paying out of 5 per cent of trust assets in income every year, even if it meant selling securities with low cash dividends to do it. Experience and analysis had taught them that a stock such as IBM, Xerox, or Avon Products gains at better than 12 per cent a year compounded, and by investing in such and disposing of a few shares each year, a higher income coupled with greater increase in portfolio value could be achieved than by level investment in bonds and old-line blue-chip common stocks.

Belief in common stocks became so dominant that by 1970 over 60 per cent of this endowment was in equities, and portfolio changes were 20 per cent annually. Banks change some 15 per cent of stock holdings yearly; so do pension funds. Mutual funds and closed-end investment companies start at 20 per cent and some (go-go and "performance" funds) will report 75 per cent changes in portfolio annually in active market years. Not only have these percentages, and rates of turnover, expanded stock trading, but billions in new investable funds now flow each year into pension, welfare, and endowment funds. New equity money comes from millions of individuals who also purchase mutual funds, often combined with life insurance in long-term thrift programs. On January 1, 1970, there was over fifty billion dollars invested in mutual funds.

Expectations for the 1970's

The financial market of the 1970's will not be explosive. Rather, we might refer to the period as the "jogging decade." Gross national product will advance from one trillion dollars in 1970 to two trillion dollars in 1980. There will be steady gains in median and per capita incomes and a continuing inflation averaging at least 3½ per cent annually and possibly as high as 5 per cent. A principal propellant will be the same

as in the late 1960's—the inexorable increase in the price of labor. It gained on the average 7 per cent annually between 1966 and 1969. All elected officials seem to "play dead" for organized labor, and uninterrupted annual increases in labor rates, far above any corresponding increases in productivity, assure inflation indefinitely unless labor-cost advances and crippling strikes become so destructive as to justify compulsory arbitration, or wage-price controls.

We cannot maintain full employment without inflation, and this inflation in turn calls for an annual increase in money supply of 3 to 4 per cent and high interests rates. We shall not return to the 3 to 6 per cent range of interest rates that prevailed between 1946 and 1966. The norm for the 1970's will be 7 per cent or higher.

Corporate finance will be a most active field with 4 to 5 billion dollars in new "going public" issues in each year in 1970 decade. Many new industries will offer their securities for the first time, and you can expect many new offerings of stock exchange firms and even a conversion of major exchanges to public ownership.

Bonds calling for 7 to 8½ per cent interest will not frighten corporation managements because (1) the interest is deducted before taxes and (2) the continued inflation means that a ten- or fifteen-year bond will be paid back in "baloney" (inflated) dollars. Deduct 4 per cent annual inflation from 8 per cent interest, and you have an attractive financial equation. Equity offerings will be in great volume also. Warrants will have a field day. The fact that a warrant represents cost-free future financing is just beginning to be broadly appreciated.

Research and development (annually) now $20 billion will grow to $35 billion in 1980, and corporate profits will expand from $95 billion in 1970 to $200 billion in 1980. Annual outlays for new plant investment will, quite faithfully, parallel annual corporate profits.

It will be a youth "age of Aquarius" decade. Youth spends

and borrows money freely, cares little about old-age provisions, and assures a confident, enthusiastic, and adventurous approach to investment markets. New accent will be on sports, entertainment, clothes, personal health and beauty, and cultural improvement. The art market, now a billion-dollar one, will become a second over-the-counter market, with painting, sculpture, and mobiles bought, sought, traded, and valued as investments.

Packaged Personal Financing

Personal finance will be heavily "packaged," and individuals will place under one corporate roof their savings accounts, life and casualty insurance, personal loans, car and education finance, home mortgages, and mutual fund investments. Instead of preparing a financial statement every time one borrows money, a person will develop an "ever-normal granary" line of credit: $5,000 when he graduates from college, to $35,000 when he's an executive or professional making $35,000 a year and has established a record for thrift and probity.

Investing Procedure

In investing, the 1960 rule book must be thrown away. In that decade, all you had to do was pick a few rapidly expanding industries, buy the best or second best stocks within them, and rack up a percentage gain of 150 to 250 per cent for the decade.

For 1970, equities purchased by traditional or exclusively fundamental criteria will not do. Some of the "growing greats" of 1960 have already gotten so big that high percentage gains are impossible: Allied Chemical, Union Carbide, General Electric, Woolworth, Standard of New Jersey, and even IBM or Xerox are unlikely to repeat earlier growth rates. Zeal for

buying stocks will not diminish, however, and for the many, mutual funds will be the investment avenue.

The art of gainful investing has become increasingly sophisticated, requiring instant access to more information, a computerized approach, and increasing delegation of market decisions to professionals. This is documented by the fact that over 50 per cent of current trading on the New York Stock Exchange is for institutional accounts (as of January, 1970), and private investors, especially the little fellows, are discouraged from trading by customer broker indifference, by the grudging supplying of information on little traded or lesser-known issues, and by higher commissions (twenty dollar minimum per transaction). The "odd lotter" will gravitate to the smaller exchanges, the OTC market, the new issue market, or confine himself to mutual funds.

Because of growth of total resources available, and acceptance of stocks as inflation hedges, there will develop an increasing scarcity of equities. New issues will be snapped up with avidity, and seasoned stocks will, on the average, command higher P/E multiples.

Those seeking income will flock to the realty trusts, oil, railroad, and cyclical stocks for higher cash dividends and high yield bonds. Those setting their sights on capital gains will be looking at innovations in merchandising, specialists in pollution control, health and medical care (particularly instruments, iron lungs, heart machines, barogenic air chambers), cosmetics and potions for longer life and youthful appearance, applied computerization, protective services, hospital and medical supplies, lasers, art, new energy sources, sports equipment, CATV and pay TV, oceanography, mass transportation, air freight, book publishing, and entertainment companies (Disney, General Cinema, Roosevelt Raceway, for example). The market stress will be on newness, adventure, and "earnings visibility." This means great potential for making money in the future, and eager investment

in companies promising to do so. Companies whose earnings keep growing will be in high market fashion, and stocks will be dumped when earnings projections turn down. The big thing to do will be to discern dominant up trends, invest within them, and move out before they crest or cease.

Research is vital. Get the facts and have good reasons for every buy or sell decision you make. Keep flexible and cut out when you've bought a turkey, and fear not to sell at a loss.

Old companies with traditional procedures will lose some of their brightest young people, and these innovators will be found in management of more exciting new corporations.

Of the honored age-old rules for investing, the only one that retains its original validity is diversification. If we knew in advance the best performing stock in the 1970's, we would buy that one only. But since we don't know, we spread our money among a series of hopefuls—a procedure we call diversification.

Finally, remember there are *no absolutes*. The pill was great until it evidenced side effects; ditto cyclamates, DDT, phosphoric detergents, and leaded gasoline. Great industries ever wax and wane—carriages, ice plants, wooden boats and skis, propeller planes, returnable bottles, rumble seats, vacuum tubes, and now tobacco. Today's market darling can be tomorrow's dog!

Finally, remember stocks are no one-way street. The Dow-Jones Average went from a 1932 low of 62 to a 1968 high of 995.15—and fell to 630 in 1970!

CHAPTER XXIII

Selection of Securities and Portfolio Building for the Long-Term Investor

WE have now progressed to a point in our coverage of corporate securities, markets, and major industrial groupings where we are ready to consider the purchase of specific securities and the structuring of individual portfolios to meet specific objectives.

Investors for Income

Of the 30 million stockholders in America, it would be our guess that probably 5 million invest primarily to safeguard their principal and to provide as generous a return on capital as is consistent with a basically defensive posture. Obviously, the safest course of action for this group, generally senior citizens seeking assured retirement income, is to put money into a savings or savings and loan account, drawing interest at 5 per cent or higher and completely insulated against decline in principal amount (except such decline as is created invisibly by inflation). To improve yields and still hew to the conservative line, a purchase of AA or AAA bonds to yield 8 per cent or more might be indicated. Following that, it would be logical to look at seasoned common stocks backed by sustained earning power, and with long records for either continuous dividend payments or frequent increased cash dividends. Without the slightest recommendation or endorse-

ment whatever, the following stocks might deserve the consideration of those whose primary objective is above-average dividend yields.

Diamond-Shamrock
International Harvester
American Smelting & Refining
Seaboard Coastline Railroad
United States Steel
Armco Steel
First Union Realty Trust
Realty Equities
Cerro Corporation
Standard Oil of New Jersey
General American Transportation
Oklahoma Natural Gas
New England Telephone & Telegraph
First National Stores
Consolidated Edison
Public Service Electric & Gas
Dayton Power & Light
Pacific Gas & Electric Corporation

The quite new field of realty equity and mortgage trusts shares should be combed for those in search of income, because of provisions in charters of these trusts calling for payment of at least 90 per cent in net earnings to shareholders each year, without any income taxes paid by the trust.

Then too, for those questing for income, certain growth stocks, such as American Home Products, IBM, Xerox, American Hospital Supply, and Avon Products, might be considered, in spite of their low yields, on the theory that their gains in market price over the years would more than offset their lower cash dividends. This expected gain might be converted into income by annual sale of 4 or 5 per cent of shares held. Whether growth-type stocks can provide income by the sale

of a percentage at regular intervals depends on a rising market. If the market sells off badly, this program backfires.

The Middle-of-the-Road Investor

At least eighteen million stockholders are in an age group between twenty-five and fifty, and for most of these, the investment objectives are long-range growth and gain, with dividend income (a second income) desired but not given priority. People in this middle sector find contentment with issues such as General Motors, Eastman Kodak, General Foods, Phillips Petroleum, Wells Fargo Corporation, Newmont Mining, Zenith Radio, Household Finance, Sears Roebuck, and established growth equities such as IBM, Honeywell, Avon Products, Occidental Petroleum, Combined Insurance, Holiday Inns, and Heublein Corporation. This group is also willing to subscribe to glamorous new issues that may emerge: Comsat, Revlon, Kentucky Fried Chicken, Control Data, Winnebago Industries, Memorex, and so on.

This random shopping list will serve as a starting point for those who aim to build an expanding portfolio of seasoned equities in companies serving broad areas of demand, companies whose managements have proved their abilities to make companies go and grow.

Below $100 Million

It should be recognized that growth is seldom an even or uninterrupted phenomenon. Top-drawer investment managers, in selecting growth stocks for their funds, find the best shopping among companies grossing between $10 million and $100 million annually. It is quite common for a $10 million company to double its sales and net earnings within a four-year period (Occidental Petroleum, Kentucky Fried Chicken, Papercraft, Combined Insurance, Winnebago, Heu-

blein, Republic Life Insurance, Coastal States Gas all did that), and tougher for a $100 million company to double its sales in six years (Howard Johnson's, TraveLodge, Amerada-Hess, Combined Insurance, IBM, Xerox, and Polaroid did this).

Companies doing over $10 million have gotten past the aches and pains of survival, early deficits, preservation of working capital, management alignment, and market penetration, and have merited investor attention, endorsement, and purchase by endowment, pension, and mutual funds. In that phase ($10 to $100 million) net earnings tend to increase at fairly predictable rates and to be reflected in share quotations at rising P/E multiples. For all these reasons, companies in this bracket are not only favored by the "pros," but their records with respect to percentage gains in market price, declarations of stock dividends with splits, and increases in cash distributions have made them frequently most rewarding long-term holdings.

Investors buying stocks for the first time or selling to upgrade their existing holdings for better long-term results should definitely consider these second-tier growth stocks.

Diversification

We urge caution in portfolio building on two points: over-diversification and overtrading. For portfolios of $100,000 or less, ten to twelve well-chosen separate issues are enough; up to $500,000, twenty different stocks will be all you'll need. If you have a good one and it is performing consistently well, don't be worried if it represents 10 to 20 per cent of your holdings. Go with the winners! It's not the stocks in your life, but the life in your stocks that counts!

Other issues attractive to the median investor are cyclical or depressed industries, P/E ratios lower than historically pre-

vailing, and companies depressed because of political, military, or technological pressures.

To illustrate, when high interest rates and the Vietnam war slowed down the construction industry, fairly visible undervaluations (over the long term) occurred among such stocks as Lone Star Cement and Boise Cascade (building materials), Financial Federation and Great Western Financial (mortgage money), United States Steel and Bethlehem Steel (structural steels). The cooling (1968–1969) of the Vietnam war caused steep declines in sales earnings and share prices of such military suppliers as Boeing, Lockheed, and General Dynamics.

Lockheed common, which had sold at 73⅞ in 1967, plummeted to below 8 in 1970. Many thought that such a reduction in market price was excessive—and so it may prove. When cyclamates became a "no-no" in 1969–1970, Coca-Cola, Royal Crown, Pepsi, and other soft drink stocks suffered, even though it was logical to expect that such major companies would swiftly find a substitute for cyclamates. Equally, tobacco stocks developed negative market action, as cigarettes became linked with hazards to health. But the majors overcame investor disfavor by diversifying into other lines. American Tobacco, Philip Morris, and Reynolds moved into many new fields.

The P/E multiples at which stocks are selling often give clues to either their undervaluation or their overvaluation. For example, the Dow-Jones Average reached a P/E multiple of 24 in 1968. This was virtually an all-time high, and might well have been discerned as a signal that the whole market was at a near-peak. In any event, the multiple receded to a 1969 below 13, which was well below the historical average for this barometer, and suggested a market recovery ahead. Equally, glamour stocks whose multiples fade may proclaim their undervaluation. IBM, Xerox, and Polaroid consistently sell above 35 times earnings; yet if they hit multiples of 55 or

above, they may be in line for a sizable sell-off in months ahead.

Different companies in various industries get into patterns of multiples which should be duly observed and followed. The chart shows some representative P/E ratios prevailing as of January 1, 1970.

Stock	Price	P/E Multiple
General Motors	69	11.1
Chase Manhattan	51	13.2
First National City	65	13.8
Honeywell	138	34.5
National Lead	25	11.3
J. C. Penney	49	22.8
Du Pont	105	13.6
American Can	41	10.5
Continental Can	73	15.6
American Home Products	69	30.3
Merck	113	40.1
Coca-Cola	82	38.9
IBM	359	43.5
Atlantic Richfield	84	21.1
Standard of New Jersey	61	10.4
Union Pacific	39	8.6
United States Steel	34	9.2
AT&T	49	12.3
American Electric Power	30	13.6
American Airlines	30	23.1
Xerox	104	51.2

From this chart, you can see that the market accords high multiples to quality and to growth rates, and makes major distinctions even between companies in a single industry (American Can 10.5, and Continental Can 15.6—a strictly comparative quality appraisal).

Another bench mark is the percentage earned on stockholders' equities. For a five-year period, 1965–1969, Avon Products averaged a return of 42.5 per cent, Xerox 39.1 per cent, Polaroid 30 per cent, Coca-Cola and Eastman Kodak 27, Zenith Radio, Consolidated Freightways, and Coastal

States Gas 25, IBM and Pepsico 20.7, and Ingersoll Rand, RCA, Continental Airlines, and Gulf and Western, all 20 per cent. Anything above 15 per cent is very good for an industrial, as is above 12 for a utility, and above 10 per cent for commercial banks. These ratios are of course not absolutes, but they do indicate the qualities of managements, and tend to prove that "stock prices are the slaves of earning power." Only stocks that are earning money or have high prospects for doing so are sought and bought in the long run.

Some thought also should be given to diversification by industry, and it is the custom in long-term portfolios to include defensive stocks, foods, beverages, and utilities, to maintain values, earnings, and dividends in times of recession. Issues in this category might include General Foods, Standard Brands, Pepsico, Coca-Cola, Anheuser-Busch, AT&T, Pacific Gas & Electric, Carolina Power and Light, and so on.

When to Sell

There is always the question of mobility in the account. The great majority of long-term investors hold their shares through thick and thin. This is good, in the case of Avon Products, American Home Products, Xerox, and Combined Insurance, but it has not been the best procedure in the cases of Allied Chemical, United States Steel, S. H. Kress, Union Carbide—which showed little or no progress and market gain during the 1960 decade. The best procedure is to consider selling stocks (1) when the clamor of bulls is loudest, (2) when an entire industry, and companies within it, evidences a down trend in earnings, (3) when a stock is selling at such a high P/E ratio, and so far above earlier highs, that a sale of all or at least part is indicated.

Do not be stampeded by panic, or an emotional hang-up, to sell a stock; and do not get sentimental about a stock, so that you can't bring yourself to sell it, even though it's heading

steadily downward. While insurance companies turn over 20 per cent of their stock portfolios in a year, most individuals will get results by trading no more than 10 per cent of holdings annually. Few stocks should be held "forever," but many people get itchy and start trading in and out, winding up the year with a poorer list than they opened with, and a boatload of commission charges to boot!

You can be a good sound investor if you use common sense, buy into industries you perceive to be growing, and look for companies increasing their net earnings by 10 per cent annually, year after year. Always have a good reason for each buy or sell decision you made, and don't repine after you've made it. "He who looks back in the market, dies of remorse."

CHAPTER XXIV

Avid Speculators

DIFFERING importantly from those who buy stocks for income and safety, or for long-term growth and income combined, are the avid speculators, who represent, we would judge, about 7 million of the 30 million American share owners.

While members of this very large group may also have a backlog of conservative securities, perhaps bonds and blue-chip stocks, their primary market efforts are concentrated on capital gains. They view cash dividends with virtual disdain, and mere preservation of principal is, to them, a dull concept indeed.

They seek swift and sizable gains, and in that quest are willing, nay eager, to take king-size risks. They eagerly pounce on a late-edition paper that shows the market closings and during the day may drop in at a brokerage office to watch the clacking ticker-tape changes flashed on the wall screen. Many women who get the speculative bug will spend hours daily in "board rooms," and if you go to a broker's office in a resort area on a rainy day, you'll find the place packed with speculators on vacation.

Just how good is this business of buying stocks for gain only? Are there some tactics of proven success in this art of trading in securities, or is it mostly a procedure beneficial to the brokers who glean the commissions?

On balance, we would say that over any five-year period,

speculators with good sources of information and discernment in the evaluation of earnings and trends and in the timing of their moves, will prosper, and a significant minority will make killings ($50,000 or more) and fortunes ($250,000 or more).

If, then, speculation is a reasonable probability and if you can be right 60 per cent of the time, what are the best procedures? The ones that have been well tested and in favorable markets have produced big "scores"?

Before endeavoring to answer these questions, we should define with some precision the nature of the market we're talking about, and the reasonable predictable price swings that may generate the profits sought. The case for equity speculation starts with this well-documented premise: stocks fluctuate quite widely, even in an average year. For example, on the average, the market swings in the Dow-Jones Industrial Average, as well as in the larger list of blue-chip stocks on the NYSE, will amount to as much as 25 per cent in a representative year. To illustrate, AT&T in 1969 ranged between 50 and 58, Chrysler from a low of 35½ to a high of 57⅞, and even so elite a growth stock as IBM swung from 291¾ to 368¾. From these random performance results, it is apparent that, even if confining their operations to the highest-grade shares, speculators may reap substantial rewards if they can buy at near the low in any year and sell at the top. Carrying the theory farther, even in the more conservative bond market, there are also sizable swings (but they usually take longer). While variations of 25 per cent or more in a single year are rare among quality bonds (unless they happen to be convertible), there can be dramatic changes, even in AAA obligations over a period of time.

To illustrate, probably the best known issue of government long-term bonds is the 3½ per cent series due 1990—as safe an investment as there is in existence, and actively traded. Because of the quality of this bond and the absolute certainty

of its annual interest payments, can you imagine that $1,000 invested in it was worth $1,062.50 in 1958 and (at the low) $625 in 1969? It is thus obvious that market speculators must be ever prepared for quite substantial market changes. As the securities purchased become more speculative, wider swings occur.

For example, National Student Marketing Corporation in 1969 gained many followers among speculators and brokerage firms. In fact, the stock rose from a low of 10 in 1969 to a high of 58 (OTC), when the issue was split two-for-one. Several brokerage firms of national stature had, in fact, been so bemused by the gains in sales, the almost weekly mergers negotiated, and management-inspired estimates of profits of $2 a share in 1969, that they prepared glowing reports on this common stock. By mid-March, 1970, however, as the real earnings of the company were made public, there was broad disillusionment, and the stock, actively traded OTC and held by several prestigious institutions, fell from 28 (after a two-for-one split in December, 1969) to around $1. Feature stories in the financial press chronicled this sensational saga of corporate "chutspah," and the president resigned.

Market swings, even in a short period, can be fantastic. On the London Exchange, Tasminex, with an exciting holding of nickel ore acreage in New Zealand, rose from $2.40 to over $240 per share during 1969. Success Motivation Institute, publicly offered at $12.50 in autumn, 1969, rapidly rose to above $40. On the NYSE, so elegant a stock as Atlantic Richfield, the hero of the new North Slope Oil Field, dwindled from a 1969 high of 135¾ to a 1970 low below 60.

All of this is to point up the fact that just ordinary stock swings in any year can give you the jitters, and that in highly popular issues, these changes can be startling, rewarding, or disastrous.

From the foregoing, we derive certain guidelines or prin-

ciples which all dyed-in-the-wool speculators should bear in mind, especially with regard to early-phase companies.

(1) Be sure to get correct and current information about the company that interests you, before you invest.
(2) Concerning new glamorous company shares, note that (a) they often sell at gaudy P/E multiples, (b) they are purchased far more on their promise than on their earnings records, and (c) if or when selling takes place, it can make a shambles of the market. If you're bold enough to enter these jackrabbit stocks, don't buy them after they've advanced 200 per cent or more—wait for them to simmer down; always prefer documented earnings results to psychedelic and romantic predictions; and remember that in the market "nothing recedes like excess."

All the above is not designed totally to discourage bold venturers into new directions, but to inveigh against rashness. There have, in fact, been some early flowering beauties: Kentucky Fried Chicken from $15 in March, 1967, to $300 in 1969; Occidental Petroleum, in which a share bought at $.25 in October, 1958, was worth $80 in 1969; and Clinton Oil, which rose from $1 in January, 1967, to over $30 in 1969. There are dozens of golden opportunities in every year—and also incipient turkeys that will bring you nothing but anguish and ulcers.

Close observations of these various speculative delights and disasters over the years has led us to certain broad conclusions that may well prove helpful to those bold souls dedicated to "speculation for the rise," and suitably equipped both temperamentally and financially to encounter heavy losses and big "scores" with equal aplomb. Our general guidelines are as follows.

1. *Do not engage in daily or very short-term in and out trading.* Not one person in ten will succeed in this practice.

Your timing has to be almost psychic, your decisions swift, and even if you stay on the plus side, you'll be supporting your broker handsomely with roly-poly commissions. Profits, if gleaned, will be at "regular income," not long term—for tax purposes. You've got to be both nimble and lucky to make money on short-term trading, and you'll find, even if you make money, that you would have made more in lively stocks by trading less, holding longer, and enjoying it more!

2. Profitable speculation is best done over periods running from six months to three years. It often requires such lengths or time for earnings to expand, for major corporation projects to unfold and flower, and for investors to provide the popular following that makes stocks zoom.

3. Almost universal experience of speculative "pros" insists that you "cut your losses and ride your profits." If you buy a stock and it immediately "sells off" by as much as 10 per cent, you're usually better off dumping it! Admit you made a mistake, sell, and forget. The "first loss" is usually the least. Equally, when the market in general appears to be headed downward, and liquidation of speculative positions is clearly indicated, sell the weak stocks first! Most people do it the other way around, and wind up with a batch of weak sisters.

4. "Stock prices are the slaves of earning power." Examine any stock that has increased its per-share net at an average rate of better than 10 per cent annually over a four-year period, and you will observe that it has probably gained substantially in market price. Companies are in business to make money, and if they do it increasingly, year after year their stocks will go up excitingly in bull markets, and even moderately in bear ones.

At worst, they will display greater defensive strength on the "down side" than those stocks whose earnings are declining. Two things usually occur in the case of stocks with notably strong earnings up trends: they advance quite predict-

ably, and their market quotations tend to rise at an even faster rate than earnings.

In other words, in buoyant markets P/E multiples rise faster than earnings, and speculators benefit doubly. Stocks in the foregoing category are generally called "growth stocks." They are often market leaders (Xerox, IBM, Avon Products, Honeywell, and Memorex are all examples) but they may drop 5 or 10 points in a day, if their earnings up trends have ceased. A glamour stock that has commanded a high P/E multiple will fade rapidly after one or two quarterly reports of "flat" or lower earnings. In the minds of the speculator, the earnings of a glamour stock *must never stop rising!* Sustained up trends in earnings represent the essential propulsion for growth stocks. When they stop growing, they shed their "multiples" rapidly. Few companies with earnings dipping merit a P/E multiple of 35!

5. "Discern a trend and then invest, and aim to sell before its crest." Over periods generally from one to three years, there are significant industrial trends that should be carefully observed. Stocks in the mainstream of dominant up trends in fashionable industries consistently outperform the market. In 1946–1947 the air transport industry gained great glamour, as air travel postwar became popular, and many new airline routes were opened up. Air shares were the market darlings. In 1955–1956 a series of wonder drugs excited speculators, and shares in Merck, Pfizer, and Searle led an animate up trend in pharmaceuticals. In 1965 everybody was excited by the advance in color television, and six major issues in that field doubled. In 1968 and early 1969, mobile homes and convalescent homes were the industries in an up tick, and you could have bought equities in these fields almost blindly and made money. In early 1969 the fabulous new stores of oil found in Alaska made the headlines, and favored issues such as Home Oil and Atlantic Richfield scored spectacular gains.

In each of these cases, it took no special genius to perceive a powerful new trend, and selection of good stocks likely to benefit required only the gaining of information about specific companies from an informed broker or responsible investment service. Many financial magazines heralded quite early these areas of probable market animation. Buying fairly early and selling at gains of 50 to 100 per cent before the trends had crested (usually within two years) required only a reasonable application of common sense.

Aggressive speculation in documented growth stocks and well-timed entry into favored issues within major industrial up trends should be continuing objectives of gainfully minded investors. All this won't beat buying Control Data in the early 1960's at $2, or Haloid (now Xerox) in 1950 at $5, and hanging on, but it should provide profitable outlets for the energies and the itchy restlessness of the myriads of traders who simply have to be "where the action is." Nothing so irks active traders as dull markets, with meager price swings. Speculation in growth issues and industrial up trends, together with a few "turn-around" situations—good stocks with their earnings down and temporarily out of favor—should provide the action and the profitability desired.

In gathering the information needed to reach market decisions, there are two distinct approaches: fundamental and technical. The first stresses such basic data as earning power, earnings on equity, profit margins, balance sheet strength, book value, dividend records, cash flows, and figures on interest rates, on unemployment, and on trends in industries, tax rates, and gross national product.

Armed with latest information on these subjects, speculators make their decisions as to both the general attractiveness of the market at the time and the relative desirability of particular stocks under prevailing conditions. Of all of these criteria, the most important, and usually the controlling factor, will be the trend of earnings. Those who follow earnings like

a hawk and buy only companies whose profits are consistently rising, have generally done well—whether in intermediate speculation or long-term investing.

The quarterly and annual reports of corporations, and the published company earnings which appear regularly in *The Wall Street Journal, The New York Times,* and other major metropolitan newspapers, can keep you up to date on earnings. The tables published compare announced quarterly, semiannual, or annual results with those in corresponding periods in the preceding year, and significant trends are thus instantly visible.

Technical Factors

This generation of speculators tends to rely far more on the technical than on the fundamental approach. By a study of day-by-day performance of individual stocks, and of the market as a whole—volumes, prices, gains, and losses—technical analysis attempts to discern from past performance the probable future trends in individual issues. Technicians believe that the actions of stocks themselves, quite apart from the earnings, dividends, or other basic corporate developments, reveal or project their future trends. Technicians insist that it is not what stocks are, but what people think they are, that makes them go up or down. The market is thus regarded as mainly a psychological phenomenon.

For example, when a stock has been trading regularly 3,000 shares a day and volume suddenly jumps to 20,000 shares daily, at steadily higher prices, the issue is regarded as a "buy." Conversely, when a stock increases its volume while its price is declining, a "bear" trend is defined.

For consistent guidance on these trends, technical analysts set great store on charts. These are of two kinds. Bar charts, the first type, graphically record transactions in an issue, usually for a week, a month, or a year, plotting the time period

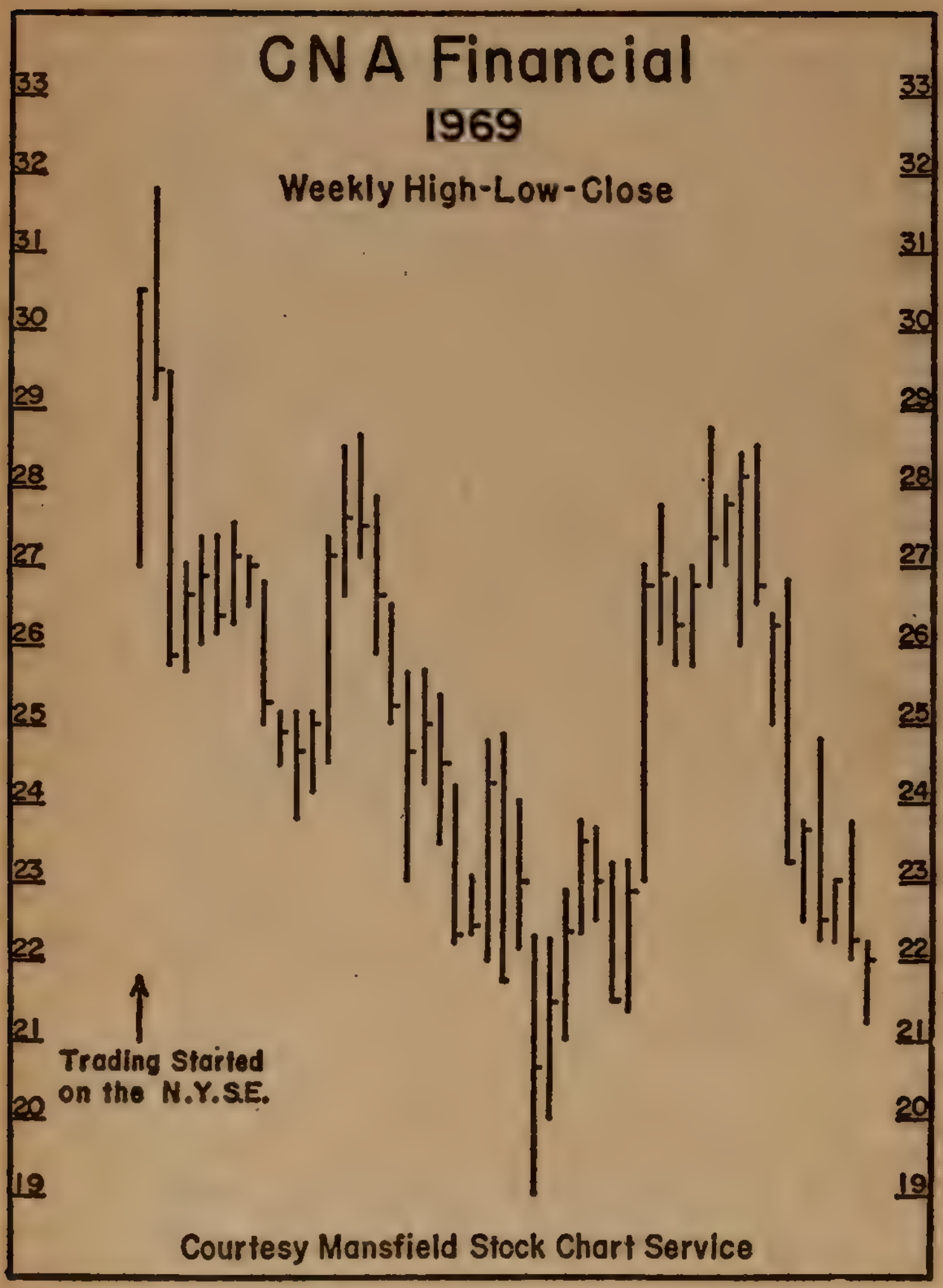
on the horizontal scale, while the vertical scale shows the price changes in the day's high and low in a connected vertical line, and short horizontal cross-lines customarily denote the closing price. Over a period, this charting tends to define a directional trend. Some experts build a two-hundred-day moving average line under the daily line. This is supposed to delineate the long-range trend with greater accuracy. Also used, but less frequently, is a point and figure chart which disregards the timing factor but uses a series of "X's" to show significant changes in prices and direction indicated by volume figures.

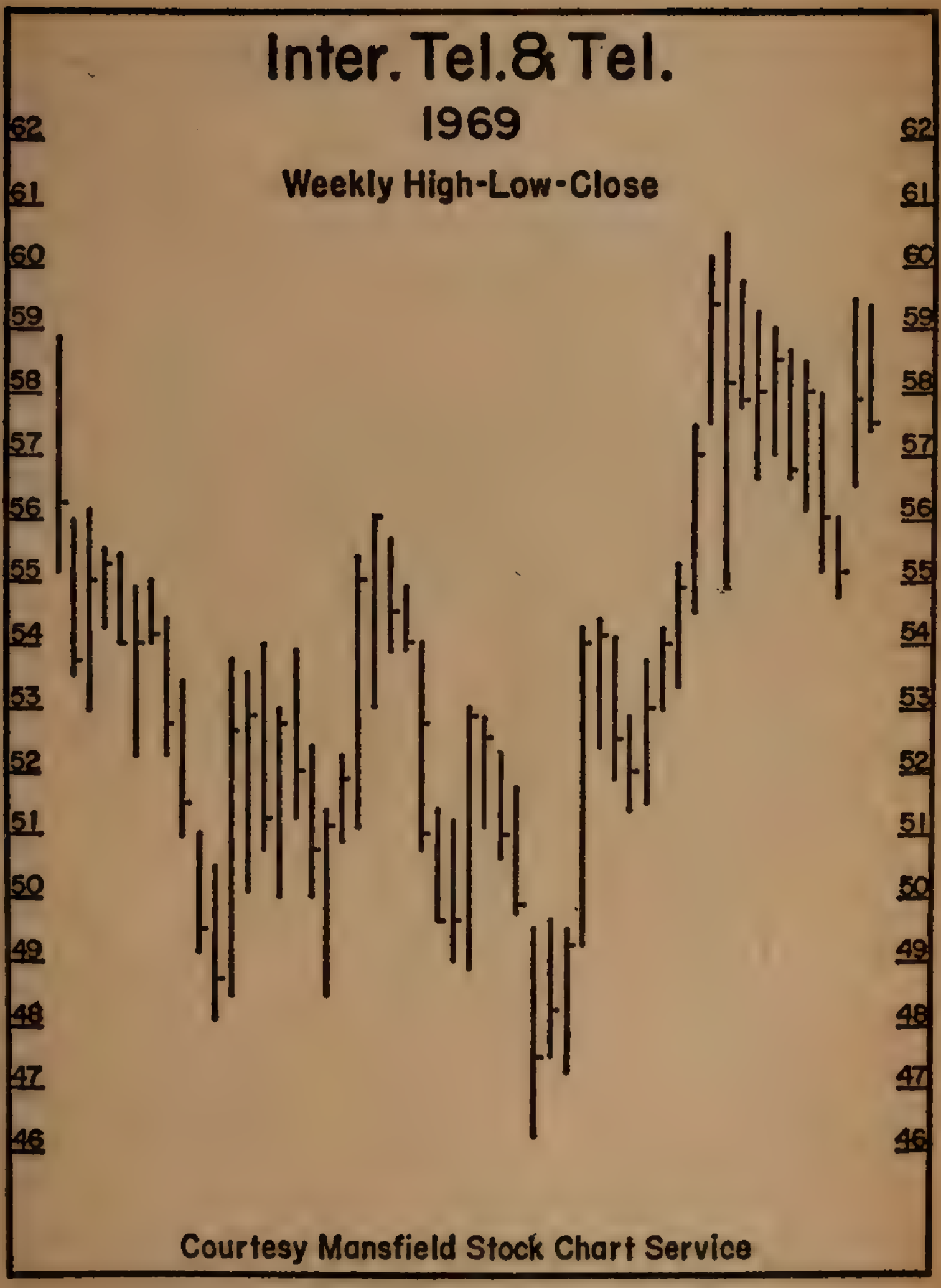
Charting is a special technology, and if you're mathematically inclined and want to learn the messages that these charts may bring, get a book on the subject. There are some titles listed in the back of this book. To illustrate, we're showing bar charts for 1969 on three interesting stocks—CNA Financial, International Telephone, and Lone Star Cement.

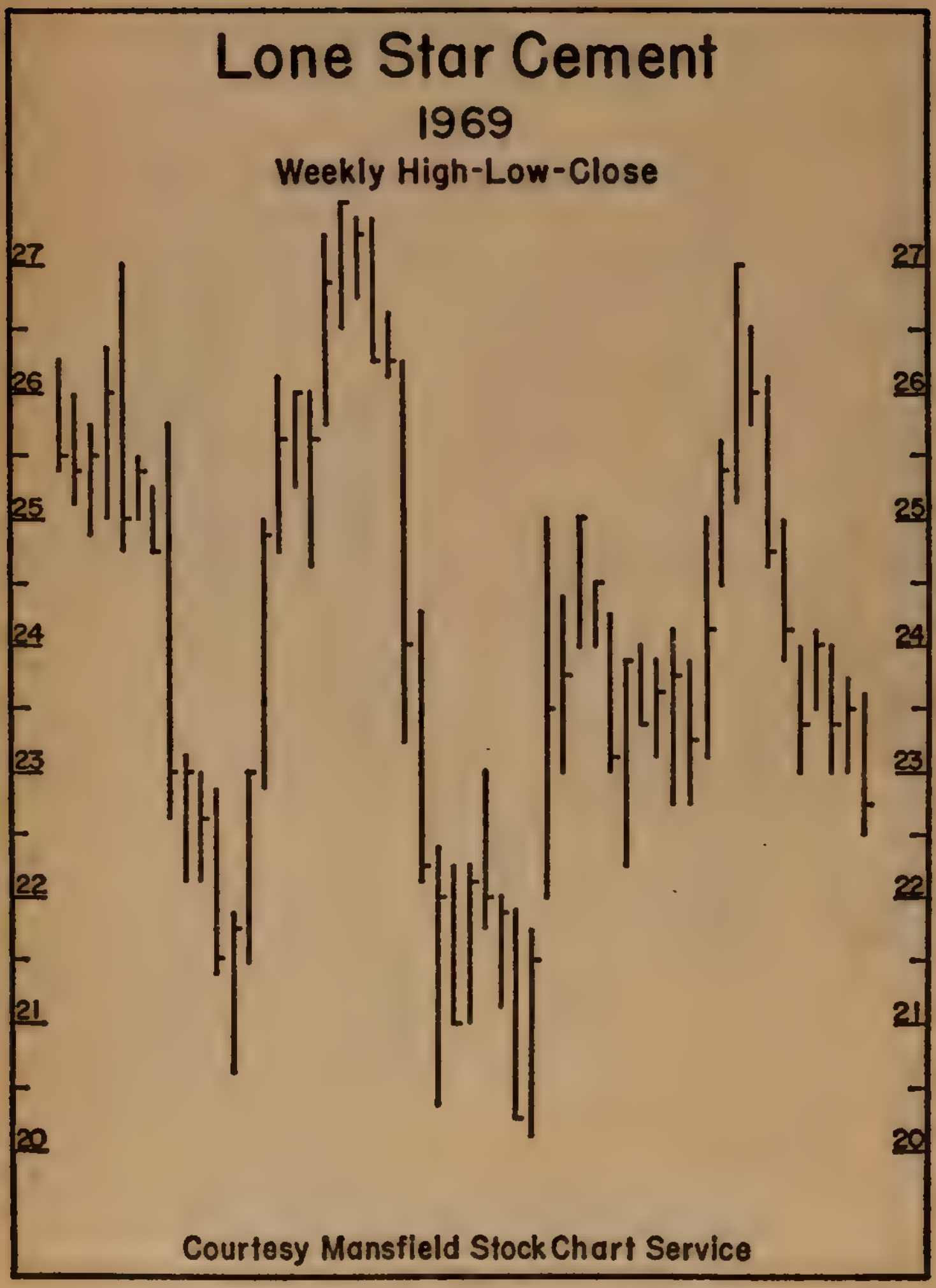
Before we conclude these general guidelines for avid speculators, we should make mention of low-priced long shots. These are issues selling at five dollars or less. Brokerage firms are rather reluctant to deal in them, because it is costly to gather and prepare adequate and up-to-date information for clients about them. Large NYSE firms seldom recommend "penny stocks," regarding them as too dangerously speculative, and they discourage their customers' brokers from soliciting orders in this group.

This is too bad, because some very great stocks—Kentucky Fried Chicken, Xerox, Occidental Petroleum, Winnebago Industries, Hess Oil, Falconbridge Nickel, Control Data, and dozens of other winners—all sold at one time below five dollars. People willing to take great risks and able to absorb total losses should not be denied access to even the grossest speculation, providing they know what they're doing.

If you hear about a cheap stock, and have enough money so that you can stand a rub-out, then strive to get information about the issue from some broker investment service or finan-


CNA Financial
1969
Weekly High-Low-Close
33
32
31
30
29
28
27
26
25
24
23
22
21
20
19
Trading Started
on the N.Y.S.E.
Courtesy Mansfield Stock Chart Service


Inter. Tel.& Tel.
1969
Weekly High-Low-Close
62
61
60
59
58
57
56
55
54
53
52
51
50
49
48
47
46
Courtesy Mansfield Stock Chart Service


Lone Star Cement
1969
Weekly High-Low-Close
27
26
25
24
23
22
21
20
Courtesy Mansfield Stock Chart Service

cial magazine, or from the company itself. Find out who runs it, get the latest balance sheet and earnings (if any) statement, and inform yourself about its products, services, patents, processes, and natural resources. Also note the caliber of firms that trade in the stock or sponsor it. If results of your investigation are satisfactory, you may want to plunge, weighing the risks you take, against possible gains. You may wind up with another Memorex and not Insull Utility Investments! Good luck, anyway!

In a market era that glorifies market action and performance, avid speculators are the virtuosi. If well informed and temperamentally "cool," they should get zest out of their work and make some money. They are not under pressure, like mutual fund managers, to perform spectacularly within a single calendar year. They can await a killing for two or three years.

CHAPTER XXV

Big Gainers and Losers in 1969 and a Tabulation of Fifty Promising Stocks for the 1970's

JUST so you don't get the impression that stock speculation is all minks, mansions, Mercedes, and Mediterranean cruises, we've listed below some headlined losers in 1969, as well as some of the outstanding gainers. Every year there are plenty of both. Even well-recommended stocks researched and sponsored by some of the best firms can "lay an egg." Investment is still far more an art than a science. The only thing certain in the market is uncertainty!

Having documented the evidence of stock volatility in a representative year, we'd like to conclude our volume with a selected list of companies whose shares seem to hold above-average long-range potentials for growth and gain in the 1970 decade. The accompanying tables record their statistical backgrounds, and we have supplied thumbnail comments about each issue. We have not presented a comprehensive analysis of each, because it might be out of date by the time this book reaches you. Furthermore, before you make any decision to buy or sell any security, it is important that you get complete up-to-date information on each issue from a broker/dealer, investment service, financial journal, or investment counsel firm. Even though these issues have been selected as excellent for long-term validity, there will always be times in the years ahead when some are more attractive than others currently.

TABLE I

New York Stock Exchange in 1969

Ten Outstanding Gainers (Year Low to High)

Company	Price Range Low	High	Net Change	Prices Dec. 31, 1969	Feb. 1, 1970
Memorex Corp.	65	173⅞	+108⅞	148¼	144½
Natomas Co.	34⅛	130½	+96⅜	63⅜	49¼
Johnson & Johnson	101	181	+80	180	158
International Business Machines	291¾	368¾	+77	364½	335¼
Disney (Walt) Productions	68½	135⅛	+66⅝	134	141¾
Motorola, Inc.	102¾	166	+63¼	135¼	134½
Corning Glass Works	237½	300	+62½	254½	218⅛
McIntyre Porcupine Mines	85	146	+61	144	149
Burroughs Corp.	110⅛	167½	+57⅜	157⅜	154½
Standard Oil Co. of Ohio	65¼	119⅞	+54⅝	82½	63 [a]
Five More Outstanding Gainers					
National Cash Register	108	161½	+53½	160½	136
American Research & Development	38⅝	89¼	+50⅝	83¼	88
Avon Products	125¼	175½	+50¼	171½	158
Honeywell, Inc.	107¾	157¼	+49½	141½	136½
Texas Instruments	94¾	140¼	+49½	124¾	118⅜

[a] Lost all its 1969 gain.

Source: Commercial and Financial Chronicle, Barron's, Wall Street Journal, Moody's Handbook, Standard Stock Cards, Standard Handbook.

TABLE II

American Stock Exchange in 1969

Ten Outstanding Gainers (Year Low to High)

Company	Price Range Low	High	Net Change	Price Dec. 31, 1969	Feb. 1, 1970
Telex Corp.[a]	20¾	111¾	+91	90½	141¾
Teleprompter	46	119	+73	109	114
Saxon Industries	51¼	120	+68¾	109	105¾
Milgo Electronics	17⅞	75¼	+57⅜	68⅛	72⅞
Digital Equipment	46¼	103	+56¾	100⅝	112
Four Seasons Nursing Centers of America	39½	90¾	+51¼	65⅞	51¾
Deltona Corp.	24¾	74⅝	+49⅞	60½	49½
New Process Co.	35½	78⅝	+43⅛	61¾	50¼
Superscope, Inc.	17	54¾	+37¾	37⅜	30⅞
Syntex Corp.	49¼	86¾	+37½	65⅛	44
Five More Outstanding Gainers					
Computing & Software	36¼	72¾	+36¼	65¾	68⅝
Research-Cottrell	31⅝	67¼	+35⅝	57½	53½
Savin Business Machines	26⅜	61	+34⅝	56¾	66⅝
Equity Funding Corp.	47⅛	81⅝	+34½	54⅝	45
U.S. Natural Resources	9	40½	+31½	33⅜	27¼

[a] Listed on N.Y. Stock Exchange in 1970.

Source: Commercial and Financial Chronicle, Barron's, Wall Street Journal, Moody's Handbook, Standard Stock Cards, Standard Handbook.

TABLE III

Over-the-Counter in 1969

Ten Outstanding Gainers (Year Low to High)

Company	Bid Price Low	Bid Price High	Net Change	Bid Price Dec. 31, 1969	Bid Price Feb. 1, 1970
Electronic Data Systems	34	150	+116	150	146
General Reinsurance	240	313	+73	298	303
Tampax, Inc.	167	225	+58	224	213
National Patent Development	62	112	+50	81	80
Esterline Corp.	24¼	70	+45¾	47¾	43¾
Tecumseh Products	108	152	+44	131	112
Republic National Bank of New York	18	62	+44	60	65
Bradford Computer and Systems	27	67	+40	67	45
Thermo-Electron Corp.	88	125	+37	115	106
Dasa Corp.	17½	54	+36½	37	37½
Five More Outstanding Gainers					
Horizon Corp.	25¾	62¼	+36½	53½	43½
Eli Lilly & Co.	68¼	102½	+34¼	102½	106¾
Pinkerton's, Inc.	43	76½	+33½	75	70
Baltimore Aircoil	29	62	+33	62	63
Chubb Corp.	41½	74½	+33	58	55¾

Source: Barron's, National Quotation.

TABLE IV

New York Stock Exchange in 1969

Ten Outstanding Losers (Year High to Low)

Company	Price Range Low	High	Change	Prices Dec. 31, 1969	Feb. 1, 1970
Superior Oil	235	124½	−110½	131½	122½
Mission Corp.	165	79	−86	84	83
Ling-Temco-Vought	97¾	24⅛	−73⅝	25⅜	20½
Du Pont	165½	101¼	−64¼	105	97
Time Inc.	100⅜	36⅜	−64	41½	33¾
Atlantic Richfield	135¾	72½	−63¼	86⅛	72
Perfect Film & Chemical Corp.	68½	11½	−57	15	12½
Gulf, Mobile & Ohio R.R.	118⅜	62½	−55⅞	64	67½
Control Data	159¼	110	−49¼	116	73
Midwest Oil	109	60⅝	−48⅜	73½	68½
Five More Outstanding Losers					
Great Western United	79	31½	−47½	39	26¼
Iowa Beef Processors (formerly Iowa Beef Packers)	75½	28	−47½	33½	32¼
Itek Corp.	93¾	46½	−47¼	58⅛	81⅝
Farah Manufacturing	83⅛	36⅝	−46½	52¾	47½
United Fruit	87	40½	−46½	46	47¼

TABLE V

American Stock Exchange in 1969

Ten Outstanding Losers (Year High to Low)

Company	Price Range High	Low	Net Change	Price Dec. 31, 1969	Feb. 1, 1970
Parvin Dohrmann [a]	141½	59¼	−82¼	Not Traded	
Marshall Industries	82½	13¼	−69¼	42⅝	47¼
Home Oil Co., Ltd., Class A	84½	23⅝	−60⅞	29¼	22⅜
Continental Connector [b]	83⅝	27⅜	−56¼	Not Traded	
Reliance Insurance	82¼	30⅛	−52⅛	32½	30¾
Resorts International, Class A	61¾	11⅛	−50⅝	11½	9⅞
Elcor Chemical	56¼	8½	−47¾	10	8⅞
Interphoto Class A	56¾	9½	−47¼	12	10
Dome Petroleum Ltd.	104¼	57½	−46¾	84½	87
Hygrade Food Products	68	22	−46	30¼	34⅞
Five More Outstanding Losers					
Waltham Industries	52⅝	10⅛	−42½	12¼	10
Bickford's	64¾	23½	−41¼	25¼	23
Trans Lux Corp.	58¾	17½	−41¼	19⅜	17½
Levin Townsend	57½	16½	−41	17⅞	12⅜
Rowan Drilling	61½	20⅝	−40⅞	24⅛	20⅜

[a] Trading suspended Oct. 13, 1969. Resumed Feb. 16, 1970, at $31 a share.

[b] Trading suspended Dec. 18, 1969. None since.

TABLE VI

Over-the-Counter in 1969

Ten Outstanding Losers (Year High to Low)

Company	Bid Price High	Bid Price Low	Net Change	Bid Price Dec. 31, 1969	Bid Price Feb. 1, 1970
Kansas City Life Insurance	570	360	−210	370	390
Raychem Corp.	291	116	−175	243	223
Federal National Mortgage Association	246	116	−130	135	130
EDP Technology	140	25	−115	28	24
Optical Scanning Corp.	118	41	−77	52	40
AITS, Inc.	79	8¾	−70¼	9⅝	7
Christiana Securities	154	91	−63	96	90
Liquidonics Industries	72	9¼	−62¾	9¼	13¼
Alphanumeric, Inc.	71	11⅛	−59⅞	13¼	14⅛
Scan-Data Corp.	85	27	−58	42	36
Five More Outstanding Losers					
Charter Co.	73	15½	−57½	17	11½
First Boston Corp.	94	40	−54	44	41
Radiation Machinery	64	10½	−53½	12½	6½
Executive Securities	92	40	−52	40	39
National Equities	90	38	−52	38	39

TABLE VII

New Issues of 1969

Ten Outstanding Gainers (Year Low to High)

Company	Offering Price	Bid Price Low	Bid Price High	Net Change	Bid Price Dec. 31, 1969	Bid Price Feb. 1, 1970
Cogar Corp.	20	29	73	+53	68	77
Viatron Computer Systems	15	14¼	58½	+43½	31½	40¾
Integrated Resources	15	21	48	+33	48	50
Hospital Corp. of America	18	28¼	50½	+32½	40½	41¾
Centex Corp.	19	19½	49½	+30½	47	38
Certron Corp.	17	18¼	47	+30	25¾	19½
Chilton Corp.	15	20½	42	+27	40	37¼
Textone, Inc.	10	18½	36½	+26½	18½	18
Alexander & Alexander	26	29½	52	+26	50	56
Four Seasons Equity Corp.	11	22½	34¼	+23¼	22½	18¾
Five More Outstanding Gainers						
Pier I Imports	11½	21	33¾	+22¼	33¾	37¼
Kayot, Inc.	12	15¼	33	+21	19	19
Information Machines Corp.	7¼	12	28	+20¾	21¼	31
Tropicana Products	25	17¼	37¾	+20½	37¾	33
Hipotronics	9¼	12¼	29¼	+20	23½	20

Note: Net change is difference between offering price and/or low bid versus high bid.
Source: Offering prices—Chronicle; Bid Prices—Barron's, National Quotation.

TABLE VIII

New Issues of 1969

Ten Outstanding Losers (Year High to Low)

Company	Offering Price	Bid Price High	Bid Price Low	Net Change	Bid Price Dec. 31, 1969	Bid Price Feb. 1, 1970
Pizza Hut	16	32¼	8¾	−23½	9¾	8
AAA Enterprises	13	27¾	7¾	−20	9½	4⅝
Forest Oil	28	33¾	14	−19¾	15	17¾
Professional Health Service	8	20	1	−19	1	1¼
Fotomat Corp.	20	29¾	15	−14¾	16	13½
Geri Care Nursing Centers	10	22	7¾	−14¼	7¾	9¾
Horizons Research	12½	26	12	−14	13	13
Columbus Mills	21¾	21¾	8	−13¾	8	7¾
Control Industries (formerly Computer Controls Corp.)	12½	17½	4	−13½	4	4½
Community Health Facilities	12	25¾	12½	−13¼	14½	12½
Five More Outstanding Losers						
Health Mor	22	21	9	−13	10¾	13⅝
Oak Cliff Savings & Loan	29	29	16¼	−12¾	16½	16½
National Silver Industries	17½	17½	6	−11½	6¼	7
Schott Industries	10	18	7	−11	7½	8¾
Sossin System	10	14	3	−11	3¼	4¼

At the time you consider a purchase, a given company may be on a temporary plateau or in a downspin, in which cases purchase might prudently be deferred. There are also times when even the finest equities are "a sale": when earnings have developed a visible down trend, when major products or services have been made less attractive or become outmoded by technology or competition, when management no longer appears energetic or forward-looking, when some government regulation or action may seriously affect future earning power, when price/earnings multiples are excessive and place too gaudy a valuation on future earnings.

With these possibilities in mind, we suggest as candidates for your shopping list for possible long-term holding the following equities:

Allied Chemical is an old-line blue chip, unprogressive during most of the 1960's, but under management of J. T. Connors (former president of Merck) likely to resurge through better cost controls, new products, and an acquisition program aimed at newer technological fields.

American Airlines is aggressive and cost-conscious, and benefited, in 1970, from assignment of new long routes—Houston-San Francisco, Dallas-Detroit, and a trans-Pacific route—and acquisition of Trans Caribbean. Record profits in 1969 should be followed by further enhanced profits in the 1970's.

AT&T, held by about 3.2 million stockholders and 600 institutions, is the only utility on the Dow-Jones Industrial Average. "T" is respected for durability of earning power and dependability of dividends. With 80 per cent of the telephones in America, and a rising stake in computerized communication, "T" should continue to prove a rewarding and serene holding.

Burns International Detective Agency, Inc. is one of the two largest protective agencies in America. Electronic techniques, low costs, and great know-how point to rising earnings

TABLE IX

Quality Corporations of Rising Stature

	Company	Common Shares Outstanding Jan. 1, 1970	Per Share Net 1969	Per Share Net 1968	Dividend Paid 1969	High–Low Price Range 1968–1969	Price May 12, 1970
NYSE	Allied Chemical	27,754,653	2.44	1.46	1.20	43–23⅜	18½
NY	American Airlines	20,280,615	1.90	1.75	0.80	38½–23½	23¾
NY	American Telephone & Telegraph	549,263,904	4.00	3.74	2.40	58⅜–48	46⅝
ASE	W. J. Burns International Detective Agency, Inc.	2,362,830	N.A.	1.09	0.60	48⅞–23	33
NY	CNA Financial	30,730,121	1.90	1.74	0.42	31¾–12⅞	14¼
NY	Canadian Pacific Railway Company	14,332,456	3.66	4.04	3.10	93½–45¾	53½
OTC	Combined Insurance Co. of America	17,456,659	1.50	1.22	0.50	67½–40⅜	51
ASE	Computing and Software Corp.[a]	3,533,540	1.18	0.67	Nil	72¾–15¼	29¼
NY	Diebold, Inc.	2,945,821	2.31	1.62	0.47	67–22¼	60½
NY	Walt Disney Productions [b]	5,172,580	3.25	2.96	0.29	135⅛–40¼	119
OTC	Federal National Mortgage Assn.[a]	1,967,841	N.A.	6.47	3.84	246–60¾	120
NY	General American Transportation	11,260,158	2.43	2.13	1.60	52⅜–30	34
NY	General Foods	24,801,537 [c]	4.16	4.07	2.60	93⅞–65	73½
OTC	Great Southwest Corp.	29,060,000	1.08	0.41	0.10	41–4⅛	10½
NY	Heublein, Inc.	10,921,874	1.30	1.11	0.75	43⅞–26½	39
NY	Holiday Inns, Inc.	23,211,897	1.20	1.01	0.19	47⅜–19⅝	31
NY	Honeywell, Inc.	15,237,508	4.10	3.40	1.18	157¼–89⅜	111
NY	International Telephone and Telegraph Co.	64,613,373	2.90	2.58	0.95	62½–44⅞	39½
NY	Leaseway Transportation	4,066,137	1.93	1.95	0.48	35⅜–19⅜	18½
NY	Lone Star Cement	8,611,792	1.97	1.67	1.00	27¾–16¾	20⅜
NY	Pittston Co. (New)	5,014,205	3.43	3.26	1.16	79⅝–41	25⅞
NY	Revlon, Inc.	11,768,810	2.33	2.17	0.93	72½–46¾	56⅛
NY	Tenneco, Inc.	55,638,043	2.31	2.18	1.29	32¾–21¾	18⅞
NY	U.S. Life Holding Co.	4,678,742	1.75	1.42	0.50	44¼–19½	27

[a] Plan stock split in 1970.
[b] Over 500,000 additional shares issued on conversion of bonds Jan. 26, 1970.
[c] Year ended March 31; 1970 est. $4.55 a share.

for BDA, in a society increasingly troubled by arson, vandalism, theft, and violence.

CNA Financial, incorporated as a holding company in 1967, has gathered under one roof a great life, a casualty, a mutual fund management, a finance, a home development, and a real estate and health service company. A financial department store, large, energetic, and innovative.

Canadian Pacific Railway Company is really a huge investment trust embracing 16,650 miles of transcontinental railway, an airline, steamship company, travel agency, express service, hotel and telegraph systems, huge mineral holdings, and millions of acres of land ranging from forest, wheat, and oil fields to hotels and office buildings. Only 14,332,456 shares outstanding. A great stock.

Combined Insurance is a stock you should have bought in any of the past twenty years. Year-to-year gains have been impressive, and premium income rose from $50 million in 1961 to over $150 million in 1969. Combined has been uniquely successful in marketing accident and health policies in large volume with low premiums.

Computing and Software is a well-managed company providing a broad range of computer services to the government, business, and the scientific community. The company also operates facilities for technical training in data processing. Growth at better than 30 per cent annually, compounded, seems possible in one of the liveliest sectors of the computer industry.

Diebold, Inc. is one of the rapid-growing innovative companies in automated filing and record handling equipment and protection. Its safes are world famous, and its advanced use of electronics in validating checks, alarm systems, TV auto-tellers, and microfilm retrieval keeps Diebold a leader in its field. Gains in per-share net from $1.62 in 1968 to $2.31 in 1969 give a clue to the money-making "moxie" of this company.

Disney Productions has displayed a sensational growth in earning power, and its stock has responded by selling at steadily higher multiples. Disneyland Park, California, will be supplemented by new California projects and a vast new recreation complex at Orlando, Florida.

Federal National Mortgage Association (Fanny Mae) makes secondary market purchases of home loans, insured by FHA, or guaranteed by VA. Scheduled to undergo transition from a government-owned agency to a quasi-private concern in May, 1970, the stock was split four-for-one in March, 1970, and the company offered $200 million in 8 per cent debentures due 1975. Indicated dividend on split shares is $.24 quarterly.

General American Transportation operates 65,000 tank, refrigerator, livestock, and other special-purpose cars. In 1968 it ceased general railway car production, to concentrate more completely on car and capital asset leasing. It also owns 90 per cent of LaSalle National Bank, Chicago. Leasing and after-tax earnings should expand, and $1.60 dividend should increase over time. Terminal operations are increasingly important.

General Foods, a two-billion-dollar food company, has evidenced steady growth and highly dependable earning power. Its success in researching and marketing new high-profit products has been outstanding. Dividends, paid since 1922, have been in a rising trend, and the company has gained new breadth by acquisitions: most recently Burger Chef Systems and White Spot Restaurants (Canada).

Great Southwest Corporation is one of the major realty enterprises in America, 80 per cent controlled by Penn Central. Land owned by subsidiaries includes 30,000 acres, including eight miles of waterfront in California, a 7,000 acre industrial park between Dallas and Fort Worth, a 3,000 acre industrial park near Atlanta, and companies in mobile home

and multifamily construction. This company has significant long-range potentials for gain.

Heublein, Inc. controls 33 per cent of the American vodka market, and its cocktail mixes and cordials have enjoyed rapidly expanding markets. Dividends paid since 1935 have been frequently increased, and there was a three-for-one split in 1959 and a two-for-one split in 1967. Smart marketing and promotion, and a major position in leisure consumption field, augur well for the future.

Holiday Inns, Inc. operates a motel chain of some 1,100 inns with over 150,000 rooms. Supporting this main operation are a reservation and travel service company, carpet, furniture, food supplies, gift and coffee shop divisions, plus control of Consolidated Trailways, Inc., America's second largest bus line.

Honeywell is an outstandingly prosperous company in controls for home and industry, a hotshot in computers, and significant in aerospace and photography. In the period 1965–1969 Honeywell grew at rate of 20 per cent annually, compounded. Cash flow, 1969, was roughly $9 a share. Earnings have risen constantly and bid fair to continue thus.

International Telephone and Telegraph Corporation is one of the most competent and effectively managed conglomerates. Starting out as a major in communication and electronic equipment, IT&T has merged impressively: Rayonier, Inc., Pennsylvania Glass, Continental Baking, Canteen Corporation and, most recently, Hartford Fire. Per-share net has increased over 11 per cent annually for nine years. Now a five-billion-dollar company with plenty of facets for growth remaining.

Leaseway Transportation is not well enough known. It offers probably the most complete packaging and widest options available to carriers and shippers in the entire transportation field. Its major clients include General Motors, Sears

Roebuck, RCA, Standard of Ohio. Leaseway has substantial interests in leasing companies in several foreign countries.

Lone Star Cement Corporation is a leading American and South American cement producer. Recent acquisitions include Southern Materials (1962), Pacific Cement Aggregates (1965), and Palmetto Quarries (1969). Earnings could expand rapidly with the return of peace and a major construction boom.

Pittston Company, originally a bituminous coal miner, has profitably branched out into transportation, warehousing, and oil distribution. The company owns and operates Brinks, Inc., providing armored truck service in 125 cities and six foreign countries. Pittston has the knack of making money. Stock was split three-for-one in spring, 1970, and the new shares, in a lower price range, should attract an animated following.

Revlon, Inc., the IBM of cosmetics, is rounding out its beauty coverage with acquisitions of wig, antiperspirant, and clinical laboratory companies. Smart in ideating, promoting, and hard selling, Revlon has rewarded shareholders well, and should continue to do so.

Tenneco, Inc. ranked fourteenth among American corporations in assets and grossed over $2.1 billion in 1969. TGT operates a 15,000-mile gas transmission network from Maine to Texas and from Canada to the Gulf—the largest gas system in the world. In the corporate stable also are Heyden Newport Chemical, Packaging Corporation of America, Newport News Shipbuilding, Kern County Land, with 2½ million acres of land (a lot of it oil-producing), and J. I. Case, a leader in agricultural machinery. On the financial side, there's a 25 per cent interest in Philadelphia Life Insurance, and 37 per cent in Houston National Bank. Tenneco is a large company that hasn't stopped growing.

U.S. Life Holding Corporation is a lively holding company with five life subsidiaries, a mutual fund complex, distributors group, and Inter-Company Title Company. A leading life

TABLE X

Energetically Emerging Companies

	Company	Common Shares Outstanding Jan. 1, 1970	Per Share Net 1969	Per Share Net 1968	Dividend Paid 1969	High–Low Price Range 1968–1969	Price May 12, 1970
OTC	American Agronomics Corp.	1,920,273	1.38	0.64	Nil	25½–3⅝	13½
ASE	American Medical Enterprises	3,180,216	0.68	0.42	0.12	45–7⅞	14½
OTC	Applied Logic Corp.	2,268,300	0.07	0.07	Nil	24½–16½	7
NY	Arcata National	6,109,204	1.30	1.06	0.14	53½–30	22½
ASE	Canadian Superior Oil, Ltd.	8,501,516	0.48	0.87	Nil	64⅞–24¾	23⅜
OTC	Cavanagh Leasing	4,366,461	[a]	0.77	Nil	58–11⅝	29
NY	Continental Mortgage Investors	13,263,864	0.50 [b]	0.38	0.62	25⅜–7½	16¼
NY	Continental Telephone	24,088,554	1.28	1.11	0.70	30–19⅝	18¼
OTC	Fidelity Union Life Insurance	5,000,000	N.A.	0.32	0.11	47½–23¾	30½
OTC	First Union Real Estate Equity & Mortgage Investment Co.	2,573,000	0.51	0.35	0.84	17–10½	11¼
NY	Manpower, Inc.	1,863,030	1.82	1.50	0.69	54⅝–26½	34½
OTC	National Liberty Corp.	6,338,494	0.87 [c]	0.71	Nil	43¼–22¼	29
NY	Pacific Petroleums Ltd.	20,938,573	0.70	0.63	0.25	43⅝–14⅝	21
ASE	Prudential Building Maintenance Corp.	2,600,000 [c]	0.70	0.56	0.20	25⅝–8	17
ASE	Research–Cottrell, Inc.	3,274,900	0.71	0.66	0.08	67¼–21¾	35¼
NY	Will Ross, Inc.	4,720,332 [d]	1.23	1.03	0.33	67½–33½	45⅝

[a] 6 months to June 30, 1969, $0.82 a share.
[b] Fiscal years end March 31; est. for March 31, 1970, $0.75 a share.
[c] Estimated.
[d] Fiscal years end March 31; est. for March 31, 1970, $1.40 a share.

insurance and financial enterprise with a good management team.

American Agronomics Corporation has the world's largest orange grove—forty-two square miles—and owns other extensive citrus acreage. It is an "asset manager" of Florida land, selling citrus acreage to individuals in 2½ to 10 acre parcels, bringing the orange orchards into production, and marketing the crops under contract. Other operations include an 18,000 acre beef cattle ranch and an expanding chain of Captain Orange franchised fast food outlets. An investment in land and management capability.

American Medical Enterprises is a leader in effective corporate management of acute-care hospitals. It owns and operates fourteen hospitals, principally in California but expanding in Texas, Florida, and Georgia. It provides hospital laboratory testing services, and its subsidiary, Professional Research, Inc., produces patient-counseling films leased to doctors on an annual basis. Per-share net 1964–1968 grew at rate of 35 per cent annually compounded.

Applied Logic Corporation specializes in offering computer time-sharing services to scientists, industrial managers, businessmen, engineers, and banks. A huge computer center at Princeton, New Jersey, serves an increasing number of high-class clients. Sophisticated management and a bright outlook.

Arcata National, incorporated in 1939, began as a lumber company, but has branched out into printing and computerized information research facilities. Biggest kicker is extensive acreage in California Redwood lands. Imaginative management is a major factor here in indicated future growth and gain.

Canadian Superior Oil (controlled by Superior Oil Company) is an exciting land play company—over seven million acres in Canada and over seven million elsewhere. Oil production steadily increasing from rich Alberta fields including Rainbow Lake. A speculation of great promise.

Cavanagh Leasing, originally an equipment leasing company, has expanded into recreational land development at such a pace that it is now in the same league with Amrep, Deltona, and Horizon Land. Cavanagh buys extensive acreage, upgrades it by improvement, and creates attractive new communities. Between 1966 and 1969, earnings expanded 389 per cent. Land and management well blended.

Continental Mortgage Investors is one of the oldest and largest of the mortgage trusts created pursuant to a Congressional Act in 1960 giving realty trusts special tax benefits. Continental policy is to purchase rather than originate mortgages, and the company has significant income from advisory fees. Good income provided, as over 90 per cent of earnings are distributed each year. Talented management in a vital financial field.

Continental Telephone is now the third largest independent telephone system in America, and since 1967 a manufacturer of communication equipment. This energetic holding company has aggressively acquired independent operating companies and increased net from $197,000 in 1961 to $24 million in 1969. Sustained enhancement in size and profitability seems predictable.

Fidelity Union Life, founded in 1927, has gained high profitability and rising stature by selling life insurance to alcoholic abstainers, and to college students whose life insurance purchases continue to increase as they progress and prosper. Growth in insurance in force, premiums, and annual net gains from operations has been outstanding. Future conjecture excellent.

First Union Realty is a Cleveland-based real estate trust that has gathered a fine group of modern office buildings in several major cities under one management. High rates of occupancy and blue-chip tenants give this trust a quality rating. Should work out well both for income and gain in an inflationary economy.

Manpower, Inc. is the largest supplier of temporary personnel to business, government, and service organizations, with over 600 offices in 32 countries. Gross revenues zoomed from $25.4 million in fiscal 1962 to $98.4 million in 1969. Net income rose 24.5 per cent in 1969. A humming company in a major service industry.

National Liberty Corporation went public in July, 1968, at $15.50 a share. In January, 1970, the stock was 45 bid, indicating a share valuation of $234 million. National has starred in sale of life insurance to abstainers by direct mail. Operations are heavily computerized, and NLC has done nothing but go and grow profitably.

Pacific Petroleums Ltd. is one of Canada's leading oil producers. PP owns 26 per cent of West Coast Transmission, 9 per cent of Alberta Natural Gas, and 100 per cent of the 579-mile Petroleum Transmission Company (the only east-west products line) and interest in 8 million net acres of oil-possible land. A company of rising stature.

Prudential Maintenance is one of the rapidly growing leaders in structural housekeeping. It services large buildings in several cities and expands by acquisition and merger of smaller regional units. Prudential provides essential service in a business sector assured of above-average growth.

Research-Cottrell has been selected because it produces all four of the leading devices in the control of air pollution. It is a leader in a vital new field that has already demonstrated a high growth rate. Shares should command relatively high P/E multiples.

Apco Oil has branched out from oil refining to production and extensive exploration—in Colombia and western Canada. Apco also owns an international ammonia trading company, and 10 per cent of a company shipping liquefied petroleum. The breadth of corporate ventures and its growth in profits give Apco an allure.

Arvida is a land company formed to handle some of the

TABLE XI

Eager Beavers

	Company	Common Shares Outstanding Jan. 1, 1970	Per Share Net 1969	Per Share Net 1968	Dividend Paid 1969	High–Low Price Range 1968–1969	Price May 12, 1970
NY	Apco Oil	2,376,851	2.76	1.46	Stk.	43⅝–19¾	25⅝
OTC	Arvida Corp.	6,022,663	0.22	0.40	Nil	26⅜–9⅜	10⅜
ASE	Canadian Export Gas & Oil Ltd.	8,148,544	0.05 [a]	0.04	Nil	11¼–4	3¼
OTC	Clinton Oil	28,334,526	0.35	0.06	Nil	13¼–1¾	5⅝
ASE	Gladding Corp.	3,000,000	0.43	0.32	Nil	24¾–6⅛	6½
ASE	Investors Funding Corp. of New York (Class A)	907,398 [b]	N.A.	1.25	0.59	46⅛–10¼	13
ASE	Jefferson Lake Petrochemicals	2,683,603	1.05	1.56	0.30	58–11	9⅝
OTC	Success Motivation Institute, Inc.	2,220,000	0.20 [c]	0.09	Nil	32½–7½	17
ASE	Western Nuclear	3,150,000	0.15	0.72	Nil	34¼–7⅞	7

[a] Year ended March 31, 1970; est. $0.05 a share.

[b] Including Class B stock.

[c] Years ended March 31; 6 months to Sept. 30, 1969, $0.19 a share vs. $0.06 a share in 1968.

extensive Florida holdings of the late Arthur Vining Davis. Strategically located urban and rural acreages should generate significant capital gains in coming years.

Canadian Export Gas & Oil is an active low-priced issue on the AMEX, quite neglected. Get the latest report and note the five oil-prone land spreads, the drilling being done, and drilling associates. This is a speculation that may flower in the 1970's.

Clinton Oil, mentioned earlier in the book, has been one of the most successful of the companies that probe for oil under extensive oil drilling partnership programs. Excellent drilling results and top-flight earnings growth are well documented here. A company with an amazing "nose for oil."

Gladding Corporation, 150 years in business, has been putting together a fine group of companies in the leisure field. Products include fishing lines and tackle, sleds, water and snow skis, camper trailers, marine electronics, and billiard balls. Sales rose from $1 million in 1964 to over $35 million in 1970. A rising trend in earnings and the price/earnings multiple might be expected.

Investors Funding is accomplished in real estate and mortgages, controls a life insurance company, and gained great size by acquisition of Ballantine Brewing. Earnings trend is up, and a higher P/E multiple should result in the long run.

Jefferson Lake Petrochemicals sank in the markets of 1968–1969. It is controlled by Occidental Petroleum. A resurgence of profits may be anticipated, in which case market response could be animated.

Success Motivation, Inc. is a peppy company with a series of programs to promote individual confidence, capability, and success. The directors are outstandingly successful men, and this "concept" stock might be a baby Xerox.

Western Nuclear is a parlay of uranium, oil, minerals, and a wide swath of Australian land. Earnings so far have not

been impressive, but for those who favor romance stocks, this may be a performer.

We could not, in this tabulation, begin to cover the 35,000 different issues of common stock that trade in the American market with some frequency. It's just a group selected as potentially rewarding. Others we favor, but have not tabulated, include Newmont Mining, Kinney Corp., Allied Maintenance, General Employment, White Shield, Florida East Coast Railway, and, if you like high-priced shares, St. Joseph Paper at (as of April, 1970) around $3,000 a share!

Some of these are going to perform sensationally. We wish we could tell you which ones—for sure!

Good luck, and remember that, as Epicurus said, "Wealth consists not in having great possessions but in having few wants."

CHAPTER XXVI

Afterthoughts

THERE is a problem connected with any book on investments. Even though its aim, as in this text, is to provide general information and a broad background for informed and gainful investment, it cannot be absolutely up to date, because significant economic events may occur between the time the manuscript is finished and the book becomes available in bookstores. This production period requires generally from 10 to 15 weeks.

Accordingly, this "postscript" chapter was designed to spotlight certain later market and financial occurrences that bear upon investment decisions or judgments, and to mention a few things that should have been covered earlier.

The first half of 1970 brought the stock market to a seven and one-half year low, with the Dow-Jones Average closing at a low of 630.16 on May 26, and the composite P/E ratio of the Dow-Jones stocks at about twelve times earnings. This dreary market condition was caused by deep discouragement, declining earnings, rising unemployment, the highest bond interest rates in a century, the continuation of the Vietnam war, and its extension into Cambodia. There was also a liquidity crisis wherein corporations in the aggregate had on hand in cash or government securities only 18 per cent of the amounts needed to discharge their current obligations. (The percentage was over 40 in 1960.)

This liquidity crisis led to a tragic event—the filing of Penn

Central Transportation Company (the railway subsidiary of Penn Central Company) under Section 77 of the Bankruptcy Act. Other lesser companies—Dolly Madison Industries, Four Seasons Nursing Centers, Milo Electronics—also filed in bankruptcy. Further, two very large corporations, Chrysler Corporation and Lockheed, were in tight financial positions and required hundreds of millions in new credit accommodations from banks to bolster their financial resources.

Also contributing to the market blues were the closing down of several sizable brokerage firms, and a series of mergers made necessary by declining market trading columns (and prices), and by heavy operating losses eroding the capital of many firms. It was calculated that, for stock exchange firms to break even, a daily trading volume of about 12.5 million shares was required. Actually, volume on many days was below 10 million.

Another significant development in the first half of 1970 was the determination to create an agency, something like the Federal Deposit Insurance Corporation for commercial banks, to assure customers against losses due to the insolvency of firms that handled their accounts. As this was written, details were being worked out. There was also in formulation a new scale of brokerage commission charges designed to increase the severances and achieve profitability of brokerage firms.

Another element in the 1970 summer of discontent was the decline and management realignment of International Overseas Investments, a very large European mutual fund organization shepherded originally by Bernard Cornfeld, who lost his position as president and director in the shake-up.

In the text of this book we did not take up conglomerates, although reference was made to several. These multi-company clusters gained great popularity in 1968 in the belief that smart, sophisticated management could assemble many companies in widely divergent industries, and by application of enlarged financial resources and inter-division production and

marketing methods, make the earnings of the whole greater than the sum of its parts. For some companies, particularly International Tel & Tel, this conglomerate approach worked out. For others it didn't. Litton stock declined heavily in 1970. Even more so, Ling-Temco skidded in the market, and so did other earlier virtuosi: Walter Kidde, Monogram Industries, General Host Bermec, and others.

Some of these conglomerates may stage good comebacks. Others will establish the fact that poor judgment was shown in acquisitions, too much was paid for them, and too much long-term debt was scaled in the capital structures. You may expect a considerable divestment of properties among conglomerates generally.

There were some bright spots that had begun to emerge by mid-July 1970, however. For a month the bond market had been rising. (A strong bond market has always preceded a bull market in stocks.) Corporation earnings among many banks, utilities, service companies, and life companies were actually increasing and such assorted companies as Combined Insurance, R. J. Reynolds Industries, Upjohn Company, Southern Railways, General Foods, Grolier Corporation, Coastal States Gas, Pittston Co., J. P. Morgan, National Liberty Corporation, IBM, all reported higher first-half earnings.

Required for a real business upturn and zooming markets was some definitive solution of racial and ghetto problems, an end to the Vietnam War, and some control over inflationary trends, particularly in the price of labor. For years, increases in the cost of labor have outrun gains in production—a major cause of inflation because labor cost pervades the price structures of almost every good and service we buy.

In conclusion, 1970 will be no banner year. It may well set the stage, however, for an improved economy in 1971 and a genuine boom in 1972 with the Dow-Jones Average reading 1250 and 11.5 million motor cars produced. There are better times ahead. Good times make good markets.

Appendix

Glossary

ACCRUED INTEREST: The interest on a bond, note, or debenture which has been earned since the last interest payment thereon.

AMERICAN STOCK EXCHANGE (AMEX): Sometimes called "the Curb," the second major securities exchange in New York.

AMORTIZATION: The "writing off" of an asset over a period of time, usually at a certain annual percentage.

ANALYST: A professional evaluator of securities and economic trends.

ANNUAL REPORT: The official statement of assets, liabilities, earnings, and net worth and progress (if any) of a corporation, covering a fiscal or calendar year.

ARBITRAGE: Taking advantage of existing price differentials by simultaneous buying and selling (usually in different markets) of identical or intrinsically equivalent assets (currencies, commodities or securities).

ASSETS: Anything a corporation owns or is owed.

AVERAGES: The various barometers of stock price trends. Best known are the Dow-Jones Industrial Average, made up of thirty major stocks; N.Y. Times Average of fifty stocks; Standard and Poor's Average of four hundred twenty-five Industrial Stocks; NYSE Common Stock Index, a composite of all "listed" common stocks.

BANKRUPTCY: Where a corporation's liabilities exceed its assets and it is unable to meet its current obligations. There are two kinds: Chapter XI, Voluntary—where an accommodation with creditors may be worked out, and Chapter X, Involuntary—

where assets under court order are placed in hands of a referee for disposition to satisfy creditors (usually not always).

BALANCE SHEET: A financial statement revealing the assets, liabilities, capital, and net worth of a company on a specified date.

BEAR: A person who thinks stocks are going down; and may sell stock "short" to back up his opinion.

BEAR MARKET: A declining one.

BID AND ASKED: A quotation of the best price which will be paid, and the lowest priced offering of a security at a given moment.

BIG BOARD: The New York Stock Exchange.

BLUE CHIP: The common stock of a major company, with a long record of earnings and dividends.

BLUE SKY LAWS: Laws in many states protecting investors against being sold a slice of "the blue sky," a fraudulent, mythical or misrepresented security.

BOARD ROOM: Sitting room for stock traders in a broker's office.

BOILER ROOM: A place where miserable or worthless securities are sold to the gullible—usually over the phone.

BOND: The long-term obligation of a corporation to repay a given sum (usually in $1,000 denominations), on a given date, with a specified rate of interest to be paid at regular intervals until then. Bonds can be debentures (unsecured), or protected by collateral, lien, or mortgage on corporate property.

BOND PRICES: Quotations, given as percentages of par value.

BOOK VALUE: All the assets of a company less all liabilities and the par value of preferred stocks (if any) divided by the number of common shares outstanding.

BROKER: A financial agent associated with a member of a stock exchange or a broker/dealer firm, who executes orders in securities or commodities on a commission basis.

BULL: A person believing that the market will rise, and aiming to profit if it does.

BULLBEAR: A mythical creature, half bull and half bear.

CALLABLE: A bond or preferred stock that may be redeemed and retired under certain conditions, and at a specified price.

CAPITAL ASSETS: The fixed assets of a company, a factory, office building, plant, warehouse, trucks, etc.

CAPITAL GAIN OR LOSS: Profit or loss realized when a security (or other asset) is sold.

CAPITAL STOCK: The shares which represent the ownership of, or equity in, a company.

CAPITALIZATION: The entire amount of all securities (debt and equity) issued by a corporation.

CASH FLOW: The net income of a company (for a given period) to which are added depletion, depreciation, amortization charges; and non-recurring charges to reserves; frequently stated "per share."

CATS AND DOGS: Low priced stocks of dubious worth.

CHARTS: Statistical data about prices, volume and trends in different stocks, portrayed graphically, hopefully to indicate the future direction of prices.

COLLATERAL: Property, most frequently securities, pledged to secure interest and repayment of a loan.

COMMISSION: The fee charged by a broker to execute an order to buy or sell.

COMMON STOCK: The ownership or equity interest in a corporation, with a claim on assets or earnings, coming after preferred stocks, notes, bonds or mortgages (if any).

CONGLOMERATE: A company which has accumulated as subsidiaries a group of companies in many different and unrelated lines of business.

CONTROL: The group owning enough stock (customarily 51% or more), or influencing enough stockholders, to direct the affairs of a corporation.

CONVERTIBLE: A bond or preferred stock, which may, under certain conditions, be exchanged for common stock, usually in the same company.

CORPORATION: A legally organized intangible organization operating (usually) under a state charter with: (1) unlimited life, (2) limited liability, and (3) transferable certificates representing shares of ownership.

COUPON BOND: One which pays interest semi-annually, by means of detachable coupons which can be cashed when due.

CUMULATIVE PREFERRED: A stock which may pay at a later date any omitted regular dividends, and on which all past due dividends must be paid before the common stock can receive any distribution.

CUSTOMER'S MAN: A representative of a stock exchange firm.

CURRENT ASSETS: Assets in cash, receivables, short-term securities, and items collectable and convertible into cash within a year.

CURRENT LIABILITIES: What a company owes which must be paid within a year.

CUT A MELON: To declare a substantial extra dividend, usually in stock.

CYCLICAL STOCKS: Those whose earnings tend to fluctuate with the business cycle.

DEBENTURE: A kind of bond, unsecured by lien or mortgage on any specific property.

DELISTED: When a security is removed from trading on a stock exchange, and reverts to the OTC market.

DEPLETION: A bookkeeping charge against earnings to mark the lower remaining value of a natural resource holding (coal, oil, minerals, timber) after some part of it has been removed, extracted or exhausted.

DEPRECIATION: A bookkeeping charge against earnings to write down the cost of an asset over its useful life.

DIRECTOR: A person elected by company shareholders to be a member of its board of directors, and maker of corporate policies and decisions.

DIVERSIFICATION: The spreading of investments among many different securities and industries.

DIVIDEND: A payment authorized by a board of directors either in cash or in stock, pro rata among shareholders. Usually a distribution made from current or past profits.

DOLLAR COST AVERAGING: Applying a level sum of money each year, say $1,000, to the purchase of as many shares of a stock as those dollars will buy at then prevailing prices.

DOW THEORY: An attempt to project market trends on the basis of the correlated past market action of thirty industrial and twenty railroad stocks.

ECONOMIST: A social scientist, often in error, but seldom in doubt!

EQUITY: The interest in a company represented by ownership of either (or both) its common or preferred stock.

EX DIVIDEND (X): Indicates that the stock, if bought, does not carry with it the dividend most recently declared.

EXTRA: Any declaration in stock or cash above regular or customary dividend distribution.

FEDERAL RESERVE BOARD: The quasi-governmental agency controlling the supply and price of money; and regulating installment credit and margin loans.

FISCAL YEAR: The official accounting year of a corporation (usually), when it does not coincide with the calendar year.

FIXED CHARGES: Fixed expenses of a corporation which must be paid whether earned or not—most commonly interest charges, or rentals.

FLOOR: The trading area on a stock exchange.

FUNDAMENTAL ANALYSIS: Evaluation of a stock on the basis of its earnings, assets, profit margins, dividends and investment stature.

FUNDED DEBT: Long term interest-bearing obligations of a company, most commonly bonds and debentures.

GILT EDGED: A high-grade bond, so called because it referred originally to issues payable (before 1933), in dollars convertible into gold.

GOING PUBLIC: The public offering of a company's securities for the first time.

GROWTH STOCK: A company whose sales, earnings and net worth are expanding at an unusual rate.

GTC: An order good until cancelled (or executed).

HOLDING COMPANY: One owning the securities of another company (or companies).

INSIDER: A person or corporation owning 10% or more of the stock of a public company, who must report to S.E.C. each month any substantial changes in holdings.

INTEREST: The price paid for use or rental of money, expressed as a percentage per annum.

INVESTMENT BANKER: An individual or a firm buying securities for resale to others. Also called an underwriter.

INVESTMENT COUNSEL: An individual or firm paid a fee to advise and/or manage investment accounts.

INVESTMENTS TRUST: A company which gathers funds from individuals, and invests these funds in a portfolio of diversified securities, professionally managed. There are "closed-end" trusts whose capitalization is fixed, and "open-end" trusts (called mutual funds) whose outstanding shares vary in number from day to day.

LAMB: A dumb and gullible investor.

LEVERAGE: Using other people's money to generate earnings or gain for you, as when large amounts of senior securities exist in a corporate capitalization, ahead of its common stock. Leverage is also created by using borrowed money to buy stocks (or a house with a mortgage).

LIABILITIES: Any and all legal claims against a company.

LIEN: A mortgage or other legal claim against property to secure a debt.

LISTED STOCK: Shares trading on any stock exchange (most commonly the New York, American, and regional stock exchanges).

LONG: Means that you own a specific security or securities.

MANAGEMENT: The officers of a company and the board of directors which elects them.

MANIPULATION: The illegal "rigging" of stock prices by artificial stimulation sometimes involving the spread of incorrect information.

MARGIN: The use of money borrowed from a broker in the purchase of securities.

MARGIN CALL: Broker's request for more money on margined securities in a declining market.

MARKET ORDER: An order to buy or sell at the best obtainable price then prevailing.

MERGER: When two or more companies are joined together.

MUTUAL FUND: See "Investments Trust."

MUNICIPALS: A generic term for bonds issued by counties, cities,

states, districts or public authorities, usually with the interest payments exempt from federal taxation.

NEW YORK STOCK EXCHANGE: The world's leading auction market for securities.

NEW ISSUE: The first public offering of a bond or stock.

ODD LOT: A small amount of stock, customarily less than 100 shares.

OVER-THE-COUNTER: The largest, and a nationwide, telephone market for those securities not regularly traded on any exchange.

PAPER PROFIT: Unrealized indicated gain on a security still held.

PAR VALUE: Face or nominal value of a security.

PENNY SHARES: Customarily those selling at $1.00 or less.

PERFORMANCE STOCK: One that gains spectacularly in price (or is expected to!).

PER SHARE NET: Total net earnings of a company after taxes, for a given period, divided by the number of common shares outstanding.

POINT: A point is $1.00 on stocks, or $10 on a bond.

PORTFOLIO: The total security holdings of an individual or institution.

PRIME RATE: The interest rate charged by banks to their best customers on unsecured loans.

PREFERRED STOCK: A stock having a claim on a company's earnings or assets, ahead of its common stock, and usually entitled to dividends at a fixed rate.

PREMIUM: The amount by which a bond or preferred stock sells above its face amount, or a new issue sells above its offering price.

PRINCIPAL: A person or firm who buys and sells for his own account.

PRICE/EARNINGS RATIO: The current price of a stock, divided by the per share net earnings of the issuing company, for the most recently reported twelve-month period. (Also called "P/E multiple").

PROSPECTUS: A summary of all the pertinent history, facts and figures about a company and the people who run it, prior to a

new securities offering. By law, a prospectus must be presented to a possible buyer in advance of any purchase.

PROXY: Designation, by a stockholder, of someone else to represent him at a stockholder's meeting.

PUTS AND CALLS: Options to buy (a call), or to sell (a put), a certain number of shares of a stock at fixed prices for limited periods of time.

QUOTATION: The bid and asked price of a security.

RED HERRING: An early prospectus draft, omitting the offering price of the issue.

REGISTERED REPRESENTATIVE: A person approved by the Stock Exchange to handle orders for the purchase or sale of securities for clients. Also called an Account Executive and, formerly, a Customer's Man or Customer's Broker.

REFINANCING: The issuance of new securities to refund outstanding ones or to retire or extend a debt.

REGISTRATION: The filing of information about a forthcoming security offering with the Securities and Exchange Commission (National Regulatory Body) preliminary to preparation and printing of a prospectus.

RIGHTS: The privilege, given to a shareholder, to buy additional stock in a company for a limited time and at a special price.

SEC: The Securities and Exchange Commission, a federal organization for the regulation of the Securities Industry.

SECONDARY DISTRIBUTION: Offering of securities, previously issued, in which the company receives no shares of the proceeds.

SENIOR SECURITIES: Bonds, notes, and preferred stocks ranking ahead of common stock.

SHORT SALE: Selling stock sold "short" (that is, not owned) with a view to buying it back later at a lower price; and borrowing the stock for delivery meanwhile.

SINKING FUND: Money reserved by a corporation to buy in, and redeem, its own senior securities.

STOP ORDER: An instruction to sell when and if a security reaches a certain price.

SPECIALIST: A floor member of an exchange designated to main-

tain an orderly market in specified securities and to act as a broker's broker.

SPECULATION: The employment of funds and assumption of risks primarily to create capital gains.

SPIN-OFFS: The delivery by a parent company to its stockholders of shares in a subsidiary.

SPLIT: Increasing the outstanding number of shares in a company by division of the existing ones.

STOCK DIVIDEND: A dividend paid not in cash, but in securities.

STREET NAME: Stock held in the name of a broker or nominee, instead of the legal owner.

SWEETENER: A convertible privilege or a warrant attached to a senior security, to make the issue more attractive and to thus reduce its interest or dividend rate.

SYNDICATE: A group of security firms cooperating with the underwriting firm, in the distribution of a security issue.

TAX-EXEMPT BOND: One with its interest payments exempt from federal income taxation.

TECHNICAL ANALYSIS: Evaluation of stocks on the basis of their recent market performance, volume and price trends.

THIN MARKET: One in which there are few bids and offerings and (often) wide "spreads" between them.

TICKER: The electric device which immediately reports and transmits on tape prices and volumes of security transactions.

TIPS: Confidential urgings to buy certain securities, supposed to be based on information "from the horse's mouth."

TRADING POST: U-shaped booths on the floor on NYSE, each one assigned to trade about seventy-five different stocks.

TRADING SYMBOLS: The abbreviations containing no more than three letters for listed stocks.

TRANSFER: The official recording of change in ownership of a security, performed by a transfer agent.

TREASURY STOCK: Stock formerly outstanding, but repurchased by the company.

UNLISTED: (See Over-the-Counter) Name given to those securities not listed on any exchange, but traded over-the-counter.

UTILITIES: A broad classification of corporate monopolies, including gas, electric, telephone and water companies.

WARRANT: A certificate authorizing its owner to buy a share, shares (or fractions) of common stock of a company at a specific price and during a specified time period.

WHEN ISSUED: A security trading regularly, but not available for actual delivery until some future date.

WIRE HOUSE: A NYSE member firm connected with its branch offices or correspondents by direct telephone or Teletype circuits.

YIELD: The return on investment in a given security at its current price, expressed as a percentage. To determine the yield on a stock, divide the present indicated annual dividend by the market price of a single share.

Common Wall Street Abbreviations

Found in stock and bond tables in *The Wall Street Journal* and daily newspaper financial sections.

a — Also extra or extras (in dividends)
b — Annual rate plus stock dividend
c — Liquidating dividend
dd — Called
e — Paid last year
f — Payable in stock, with cash value of the distribution estimated
g — Declared or paid so far this year
h — Declared or payable after stock has split; or a capital distribution
N — New issue
P — Received or paid in a given year, plus stock dividend
c/d — Called
X — Ex-dividend
EX — Ex-distribution
XW — With warrants removed
WI — When issued
WW — With warrants
Nd — Next day delivery
vj — In bankruptcy, receivership or reorganization
F — Dealt in flat; that is, without interest accrued
cts. — Certificates
St — Stamped
Fn — Foreign

The Thirty Stocks Comprising the Dow-Jones Industrial Average

	Company	NYSE Symbol
1.	Allied Chemical	ACD
2.	Aluminum Co.	AA
3.	American Can	AC
4.	American Tel. & Tel.	T
5.	American Tobacco	AT
6.	Anaconda	A
7.	Bethlehem Steel	BS
8.	Chrysler	C
9.	Du Pont	DD
10.	Eastman Kodak	EK
11.	General Electric	GE
12.	General Foods	GF
13.	General Motors	GM
14.	Goodyear	GT
15.	International Harvester	HR
16.	International Nickel	N
17.	International Paper	IP
18.	Johns-Manville	JM
19.	Owens-Illinois	OI
20.	Procter & Gamble	PG
21.	Sears Roebuck	S
22.	Standard Oil of California	SD
23.	Standard Oil of New Jersey	J
24.	Swift & Co.	SWX
25.	Texaco	TX
26.	Union Carbide	UK
27.	United Aircraft	UA
28.	U.S. Steel	X
29.	Westinghouse Electric	WX
30.	Woolworth	Z

Suggested Readings

Newspaper

The Wall Street Journal

Weekly Magazines

Barron's
Business Week
Commercial and Financial Chronicle
Financial World
Investment Dealer's Digest
OTC Chronicle
Wall Street Transcript

Twice-Monthly Magazines

Forbes
Magazine of Wall Street

Monthly Magazines

Finance Magazine
Fortune Magazine
Over-the-Counter Securities Review

Bi-Monthly Magazines

Financial Analysts Journal

Books

Brooks, John. *Once in Golconda: A True Drama of Wall Street, 1920–1938*. New York: Harper & Row, 1969.

Cobleigh, Ira U. *The Two-Dollar Window on Wall Street*. New York: Doubleday, 1968.

Crane, Burton; C. Eisenlohr, ed. *The Sophisticated Investor.* New York: Simon and Schuster, 1964.

Engel, Louis. *How to Buy Stocks.* Boston: Little, Brown, 1967.

Knowlton, Winthrop. *Growth Opportunities in Common Stocks.* New York: Harper & Row, 1965.

Loeb, Gerald M. *The Battle for Investment Survival.* New York: Simon and Schuster, 1957; rev. 1965.

Rosenberg, Claude. *The Common Sense Way to Stock Market Profits.* New York: World, 1968.

Smith, Adam. *The Money Game.* New York: Random House, 1968.

Scheinman, William X. *Why Most Investors Are Mostly Wrong Most of the Time.* New York: Weybright and Talley, 1970.

Tso, Lin. *Techniques for Discovering Hidden-Value Stocks.* New York: Frederick Fell, 1965.

Index

Abbreviations, 231
Acme Visible Records, 134
Acushnet, 123
Adams Express, 162
Addressograph-Multigraph, 135
Admiral TV, 154
Advertising agencies, 90–91
Aetna Life and Casualty, 75, 77
Agnico, 109
Air pollution, 110–13, 114–15, 150
Air Transport (airlines), 79, 82–84
Alberta Natural Gas, 214
Alcan Aluminium Ltd., 106
Alico Land, 139
Alleghany Corporation, 28, 29–30, 162
Allied Chemical & Dye, 166, 172, 181, 205, 232
Allied Maintenance, 90, 217
Allstate Insurance, 77
Aluminum, 105–6
Aluminum Co. of America (Alcoa), 105, 106, 232
Amerada, 148
Amerada-Hess, 178
American Agronomics Corp., 212
American Air Filter, 113
American Airlines, 79, 82, 83, 205
American Broadcasting, 123, 154
American Can, 232
American District Telegraph Co., 89
American Electric Power, 97
American Express Company, 47
American Gas and Electric, 9
American Home Prod., 19, 176, 181
American Hospital Supply, 176
American Machine & Foundry, 123
American Medical Enterprises, 18, 93, 94; 1970 prospects, 212
American Medicorp, 93
American Metal, 106
American Motor Inns, 120
American Oil Shale Corporation, 32
American Power & Light, 166
American Regitel, 18, 135
American Smelting, 106, 176
American South African, 108–9
American Stock Exchange (AMEX), 35, 41–42, 43, 44, 198, 201, 221
American Telephone and Telegraph (AT&T), 101, 102, 132, 166, 184, 205, 232
American Tobacco, 179, 232
American Water Works, 103
Ampex, 155, 156
Anaconda, 106, 232
Anglo South African, 108
Anheuser-Busch, 47, 181
A&P, 153
Apco Oil, 149, 214
Applied Logic, 18, 135
Aqua-Chem, 18, 114
Arcata National, 212
Arden, Elizabeth, 158
Arizona Public Service, 98, 99
Armco Steel, 105, 176
Armour & Company, 153
Art, 124–25
Arvida, 1970 prospects, 214–16
Asamera, 149
Associated Dry Goods, 152
Asociated Gas and Electric, 166
Associated Transport, 85
Atlantic City Electric, 99
Atlantic Richfield, 31, 139, 185
Atlas Consolidated, 106, 107
Atlas Corporation, 28, 162
Audio Magnetics, Inc., 155
Automatic Data Processing, 18, 94
Automobile (cars), 3–4, 111, 117, 123–24, 150; insurance on, 76

Avis, 123
Avnet, 155
Avon Products, 158, 176, 177, 180, 181

Baker, Michael, 18
Ballantine Brewing, 216
Baltimore Gas, Light and Power, 97
Baltimore Trust, 160–61
Bangor and Aristook railroad, 81
Bank of America, 47
Bank of California, 68
Bank of New York, 66, 68
Bankers Trust, 68
Banks (and banking), 9ff., 46, 66–69, 160–61. *See also* Investment banking; Trusts; etc.
Barton's Candy, 18
Bekins Transportation, 85
Berkeley Enterprises, 93
Bethlehem Steel, 105, 179, 232
Betz Laboratories, 114
Block, H. & R., 94
Boating, 124
Boeing, 179; 747's, 83
Bohack, 153
Boise Cascade, 139, 179
Bonds, 5–6, 8–13, 220 (*see also* specific companies); and changing pattern of investment, 167ff.; convertible, 19–24; guidelines for '70s, 171; 1968 boom, 11–13; NYSE and, 41; popularity of, 8–11; and speculation, 184–85; warrants and, 31
Book publishing, 123
Booz-Allen and Hamilton, Inc., 94
Borden, 153
Boston and Maine railroad, 81
Bradley Realty Trust, 143
Bridgeport Hydraulic, 103
Brinks, Inc., 210
British Petroleum, 148
Brokers, brokerage, 159–60, 219
Brooklyn Union Gas, 101
Brooks (department store), 152
Brower, Martin, 18
Brown & Sharp, 157
Brunswick (bowling company), 123
Buffalo Forge, 113
Building maintenance, 89–90
Burger Chef Systems, 208
Burger Kings, 129
Burns, W. J., 89, 205–7
Burroughs Corp., 134, 135
Busch's (jewelers), 153
Business Man's Assurance, 47
Butte Drilling, 149

Calgary Stock Exchange, 43
Callaghan Mining, 108
Campbell Red Lake, 108
Canadian Export Gas & Oil Ltd., 216
Canadian Homestead, 19
Canadian Pacific Railway, 79, 81, 82, 139, 207
Canadian Stock Exchange, 43
Canadian stock exchanges, 43–44
Canadian Superior Oil, 149, 212
Canteen Corporation, 209
Captain Orange, 212
Care Centers, Inc., 93
Career Academy, Inc., 93
Carolina Power and Light, 98, 181
Cartridge Cassettes, 155, 156
Cartridges, recording, 155–56
Carvel, 154
Case, J. I., 210
Casinos, 121–23
Cassettes, 155–56
Cavanagh Leasing, 141, 213
CBS, 123, 154, 155, 169
Central Railroad of New Jersey, 10
Central Telephone & Utilities, 102
Cerro Corporation, 106, 176
Charter of New York, 68–69
Charts, 190–94
Chase Manhattan Bank, 68
Chemical New York, 69
Chemical N.Y. Bank and Trust, 69
Chicken Delight, 129
Chris Craft, 124
Chrysler, 184, 219, 232
Chubb & Sons, 94
Cigarettes, 18, 179
Cincinnati Milling, 157
CIT Financial Corporation, 69
Cities Service Company, 31, 166
Citizens Utilities, 103
City Investing, 139
Clark Oil, 149
Clinton Oil, 18, 149, 186, 216
CNA Financial, 75, 77, 192, 207
Coastal States Gas, 101, 178, 220; percentage returned, 181
Coastal States Producing, 19
Coca-Cola, 19, 166, 179, 181
Coeur d'Alène Mines, 108
Columbia Gas, 100, 101
Columbia Pictures, 156
Combined Insurance Company of America, 19, 75, 177, 178, 181, 207, 220
Cominco Ltd., 106
Computer Radix Corporation, 32

Computer Sciences, 135
Computers, 131–35
Computing and Software, 94, 135, 207
Comsat, 54, 177
Conglomerates, 219–20
Congressional Life of N.Y., 33
Connecticut General Life, 47, 75
Consolidated Edison, 97, 99, 166; for income, 176
Consolidated Foods, 153
Consolidated Freightways, 80, 84–85; percentage returned, 180–81
Consolidated Leasing, 19
Consolidated Trailways, Inc., 209
Construction industry, 179
Continental Airlines, 83, 181
Continental Art Galleries, 125
Continental Assurance, 75
Continental Baking, 209
Continental Connector, 122
Continental Mortgage Investors, 145; 1970 prospects, 213
Continental Telephone, 102, 120, 213
Control Data, 19, 134, 177
Convalescent and nursing centers, 91–93
Convertible securities, 19–27
Copper, 106–7
Copper Range, 106, 107
Corinthian (broadcasting co.), 154
Corn Products, 153
Cosmetics, 158
Cox (broadcasting company), 154
Crowell-Collier, 123
Culligan, Inc., 114
Cushman Cart, 124

Damson (oil company), 149
Data Processing and Gen'l Corp., 134
Day Mines, 108
Dayton Power & Light, 176
Deltona Corporation, 18, 139, 141
Dennison Manufacturing, 135
Denny's, 129
Diamond-Shamrock, for income, 176
Dictaphone, 135
Diebold, Inc., 135, 207
Digital Equipment, 134
Disney, Walt, Productions, 173, 208
Diversified Mortgage Investors, 145
Docktor Pet Shops, 94
Dolly Madison Industries, 219
Dome Mines, 108
Dominick Fund, 162
Doremus & Company, 90
Dorr Oliver, 114
Dow-Jones Industrial Average, 12, 101, 174, 179, 184, 218, 221
Dow-Jones Railroad Average, 79, 80
Dow-Jones Transportation Index, 79–80
Downe Communications, 61, 62
Downtowner Corporation, 120
Doyle Dane Bernbach, 90
Drugs (pharmaceuticals), 157–58
Dunkin' Donuts, Inc., 91, 127
Du Pont, 232

Eagle Gold, 108
Eastern Airlines, 79
Eastman Kodak, 9, 166, 177, 180, 232
Education, 93–94
EG&G, 19
El Paso pipeline company, 101
Electric companies, 95, 96, 97, 99
Employment agencies, 87–88
Emerson cartridges, cassettes, 155
Entertainment, 154–56
Equity Funding Corporation, 18
Ethyl Corporation, 111
Evinrude, 124

Fabergé, Inc., 158
Factor, Max, 158
Falconbridge Nickel, 109
Famous Artists, 19, 94
Fanning Personnel Agency, 88
FAS International, Inc., 94
Federal Nat'l Mortgage Ass'n, 202, 208
Federal Sign and Signal, 89
Federated Department Stores, 152
Fidelity and Deposit, 47
Fidelity Union Life, 75, 213
Filtrol Corporation, 113
Financial Federation, 179
Finlay, Wally F., International Galleries, 125, 129
First General Real Estate and Resources Trust, 144
First Mortgage Investors, 145, 146
First Nat'l Bank of Boston, 66–67
First Nat'l City Bank, 66, 68
First National Stores, 153, 176
First Union Real Estate Equity & Mortgage Investment Company (First Union Realty Trust), 176, 213
Florida East Coast Railway, 18, 217
Florida Gas Company, 101
Florida Power and Light, 98
Food, 91, 153–54 (*See also* specific companies, foods); franchising systems, 127–30
Food Fair, 153

Ford Motor Company, 48, 54, 57; and pollution control, 111, 115
Four Seasons Nursing Ctrs., 48, 61, 62, 219
Franchising companies, 126–30
Franklin Life Insurance, 47
Franklin Mint, 61
Franklin Realty, 144
Fraser Mortgage Investment, 145
Free State Geduld, 109
Fresnillo metal company, 107
Frito-Lay, 153

Garfinckel (department store), 152
Gas, 95ff., 99–100, 149ff.
General American Trans., 176, 207
General Cinema Corp., 18, 156, 173
General Development, 18, 139, 141
General Dynamics, 179
General Electric, 155, 166, 172, 232
General Employment Enterprises, Inc., 88; favored for 1970, 217
General Foods, 153, 177, 181, 208, 220, 232
General Host Bermac, 220
General Mills, 153
General Motors, 9, 85, 161, 177, 209, 232
General Telephone and Electronics, 102
General Tire, warrants of, 30
Georgia-Pacific, 139
Gerber (food maker), 153
Giant Portland Cement Company, 115
Giant Yellowknife, 108
Giddings & Lewis, 157
Gimbels, 152
Gino's, 91, 129
Girard Trust Company, 67
Gladding Corporation, 123, 216
Gold, 108–9
Golden Cycle, 19
Goodyear Tire and Rubber, 8, 232
Government Employees Casualty, 77
Grant, W. T., 152
Grant Advertising, 90
Great Northern Paper Company, 157
Great Northern Railway, 79, 139
Great Southwest Corporation, 18, 82, 139; 1970 prospects, 208–9
Great Western Financial, 179
Greatamerica Corporation, 47
Greenfield Real Estate Trust, 143
Grey Advertising, 90
Greyhound Corporation, 80, 85
Greyhound Van Lines, 85
Grolier Corporation, 220
Grosset & Dunlap, 123
Growth stocks, 14–19, 176–77, 188, 189
GRT, 155, 156
Gulf Oil, 148
Gulf and Western, 181

Hacienda Motel Corp., 122
Hammermill paper, 157
Harcourt Brace & World, 123
Harper & Row, 123
Hartford Fire, 77, 209
Hartford Steamboiler, 77
Head Ski, 123
Heinz, H. J., 153, 154
Hertz, 123
Hess Oil, 148
Heublein, 19, 177–78, 209
Heyden Newport Chem., 101, 210
Hilton Hotels, 19, 121
Holding companies, 68–69, 74–75
Holiday Inns, Inc., 17, 119, 120, 130, 140, 177, 209
Home development companies, 141
Home Oil Company, 149
Home ownership, 136–37, 138
Homestake Mining, 108
Honeywell Inc., 134, 177, 209
Horizon Land, 139
Hornes Enterprises, 85
Horse parks, 123
Hotel Corporation, 121
Hotels, 120–22, 139–40
Household Finance, 177
Houston National Bank, 210
Howard Johnson's, 128, 130, 154, 178
Howdy Beefburger, 127
Hudson Bay Smelting, 106, 107
Hudson Vitamins, 48
Hudson's Bay Company, 2
Hugoton Production, 99, 100
Hyatt Houses, 140
Hytek International, 114

IBM (International Business Machines), 134, 135, 169, 172, 176ff., 184, 220
INA Corporation, 75, 77
Ingersoll Rand, 181
Inspiration Copper, 106, 107
Insurance, 46–47, 73–77
Inter-Company Title Company, 210
Intercraft Industries, 125
Intermediate Nursing Centers, 93
International (advertising), 90
International Business Machines. *See* IBM

International Correspondence Schools, 93–94
International Harvester, 157, 232; for income, 176
International Industries, 129
International Leisure Corp., 122
International Mining, 107–8
International Nickel, 106, 109, 232
International Overseas Investments, 219
International Paper, 139, 157, 232
International Telephone & Telegraph (IT&T), 120, 123, 193, 220
Interstate (department store), 152
Investment counsel, 160, 161
Investment trusts (investment companies), 161–65 (*See also* Trusts; specific companies); estate (*See* Real estate)
Investors Diversified Services, 47
Investors Funding Corp. of N.Y., 33, 216
Iowa Beef Packers, 153
Iron, 104
Irving Trust Company, 69

Jamaica Water & Utilities, 103
Japan, 105, 107
Jefferson Lake Petrochemicals, 216
Jockey Club of Canada, 123
Johns-Manville, 113, 114, 232
Johnson outboard motors, 124
Josephson, Marvin, Associates, 94
Jostens, 18
Joy Manufacturing, 113

Kaiser Aluminum & Chemical, 106
Kane, Anthony, Inc., 88
Kelly Services, 88
Kennecott Copper Corporation, 106
Kentucky Fried Chicken, 17, 48, 54, 61, 91, 127–28, 154, 177, 186
Kern County Land, 101, 210
Kerr Addison, 108
Kidde, Walter, 220
King Resources, 149
Kinney National Services, 90, 217
Kinney Systems, 123
Koehring (machine company), 157
Koenig (advertising agency), 90
Kresge, S. H., 153, 181
Kroger, 153

Lanvin-Ritz, 158
Larwin Mortgage Investors, 145
La Salle National Bank, 208
Las Vegas, 102, 121–22
Lawn Boy mowers, 124
Lead, 107
Lear Jet cartridges, cassettes, 155
Leasco, 134
Leaseway Transportation, 85, 209–10
Lehman Corporation, 162
Leisure time, 117–25
Levin-Townsend Computer, 134–35
Lewis Business Forms, 134
Life Insurance Co. of North America, 75
Life of Virginia, 75
Lin Tso Corporation, 34
Lincoln Corporation, 75
Lincoln National Life, 47, 75
Ling-Temco-Vought, 220
Litton Industries, 220
Little, Arthur D., Inc., 94
Little Long Lac, 108
Lockheed, 179, 219
Loew's, 156
London Exchange, 185
Lone Star Cement, 179, 194, 210
Loomis & Sayles, 161
Louisiana Land and Exploration, 139
Louisville & Nashville Rr, 79
Lum's Inc., 18, 55, 61, 91, 129

McCullogh Oil, 149
McDonald's, 18, 91, 129, 154
McGraw-Hill, 123
Machinery, 157
McLouth Steel, 105
Macy's, 152
Madison Fund, 162
Madison Square Garden Corp., 82
Magavox, 155, 169
Management Recruiters, 88
Manhattan Life, 47
Manpower, Inc., 88, 211, 214
Marcor, 152
Marley Company, 114
Marriott, 140
March and McLennan, 94
Mattagamini, 107
Meadowbrook National Bank, 69
Medical Mortgage Investors, 145
Medicenters of America, 93
Memorex Corporation, 134, 177
Merck, 157, 169, 188
Mercury Corporation, 77
Mergers, 32–33
Mesta (machine company), 157
Metal companies, 104–9
Metromedia, 123, 154
Midas International, 19, 111, 129

Mid-Continent (telephone co.), 102
Middle South Utilities, 98
Middle West Utilities, 166
Midland Mortgage Investors Trust, 145; warrants of, 32
Midwest Stock Exchange, 42
Milgo Electronics, 219
Minnesota Mining, 155
Mobil Oil, 148
Mobile homes, 117–19
Mogul Corporation, 114
Mohawk Data Sciences, 134
MMM, 135
Money stocks, 46–48, 66–78
Monmouth Park, 123
Monogram Industries, 220
Monsanto Chemical, 113
Montreal Stock Exchange, 43
Monumental Corporation, 75
Moody's, 160
Morgan, J. P., 220
Mortgages, 10, 11, 167, 169; companies, 63, 144–46, 176
Motels, 139–40
Motion pictures, 156
Motor Clubs of America, 18
Motorola, Inc., 169
Mountain States Telephone, 102
Multiplex Corporation, 32
Murray, Arthur, Studios, 94
Mutual funds, 161, 162–65, 170, 226

Nalco Chemical, 114
Nathan's Famous, 91
National Ass'n of Security Dealers, 52
National Broadcasting Company (NBC), 123, 154
National Cash Register (NCR), 132, 134, 135
National Dairy Products, 153
National General Corporation, 128
National Liberty Corp., 75, 214, 220
National Liberty Life, 75
National Life and Accident, 47
National Steel, 105
National Stock Exchange, 42
National Student Marketing, 185
National Tape Distributors, 155
Nationwide Insurance, 77
NBC, 123, 154
Neptune Meter, 114
New England Telephone & Telegraph, 102; for income, 176
New Haven Railroad, 81
New York Central, 166
New York, New Haven and Hartford, 10
New York Stock Exchange (NYSE), 4, 37–41ff., 173 (*See also* specific businesses, companies); Common Stock Index, 221; 1969's outstanding gainers, 197; 1969's outstanding losers, 200; no warrants, 35; and "penny stocks," 191; swing, 184
New York Times Average, 221
Newmont Mining, 106, 177, 217
Newport News Shipbuilding, 101, 210
Niagara Mohawk, 99
Nickel, 109
Nickel Run, 109
Norfolk & Western Railway, 79
North American Company, 166
North American Phillips, 155
North American Van Lines, 85
Northeast Utilities, 97, 99
Norton Natural Gas, 100, 101
Northern Pacific, 81, 139
Northwest Airlines, 82, 83
Northwestern Steel and Wire, 105
N.Y. and Honduras Rosario, 108

Occidental Petroleum, 18, 75, 149, 177, 186, 216
Oceanography, 158
Office buildings, 89–90, 137, 140–41
Ogilvy & Mather, 90
Oil, 17–18, 33, 99, 100, 139, 147–51
Oklahoma Gas and Electric, 98
Oklahoma Natural Gas, 100, 101, 176
Olsten's Temporary Personnel, Inc., 88
Optical Scanning Corporation, 134
Outboard Marine Corporation, 124
Over-the-counter market (OTC), 45–53 (*See also* specific businesses, companies); and new issues, 48–49, 60, 62; 1969's outstanding gainers, 199; 1969's outstanding losers, 202; warrants, 35
Owens-Illinois, 232

Pacific Cement Aggregates, 210
Pacific Gamble Robinson Company, 47
Pacific Gas & Electric, 97, 98, 101, 176; for recession, 181
Pacific Petroleums, 100, 149, 214
Pacific Telephone & Telegraph, 102
Package Express, 85
Packaging Corp. of America, 101, 210
Palmetto Quarries, 210
Pan American World Airways, 80, 83
Pancake Houses, 129

Paper companies, 115, 139, 156–57
Papercraft, 177
Papert (advertising agency), 90
Parvin/Dohrmann Corporation, 122
Pearl's (Minnie) Chicken System, Inc., 128, 129
Peninsular Life, 75
Penn Central Company, 79, 81, 82, 219; and real estate, 139, 208
Penn Central Transportation Company, 218–19. *See also* Penn Central Company
Penn Dixie Corporation, 34
Pennsylvania Glass, 209
Penney, J. C., 152
Pennsylvania Railroad, 166
Pension funds and trusts, 40, 170
Peoples Gas Light, 101
Pepsi Cola (Pepsico), 179, 181
Performance Systems, Inc., 128
Permeator Corporation, 19
Petroleum, 147–51
Petroleum Transmission Company, 214
Pfaudler-Permutit, 114
Pfizer, Charles, and Co., 169, 188
Phelps Dodge, 106
Philadelphia Life Insurance, 210
Philip Morris, 179
Phillips Petroleum, 100, 148, 177; and real estate, 139
Pillsbury, and Burger Kings, 129
Pinkerton's, Inc., 89
Pitney Bowes, 135
Pittston Company, 210, 220
Polaroid, 169, 178, 179–80
Pollution control, 110–16, 150
Portland General Electric, 99
Potter Instrument, 134
Preferred stocks, 4–5, 6, 24–27, 47, 168, 169
Prentice-Hall, 123
Price/earnings ratio (P/E multiple), 179–80
Procter & Gamble, 166, 232
Professional Research, Inc., 212
Prophet Company, 85
Protection services, 88–89
Prudential Building Maintenance Corporation, 90, 214
Prudential Drilling, 18
Prudential Funds, 149
Public Service Co. of Colorado, 98
Public Service Co. of New Mexico, 98
Public Service Electric & Gas, 176
Publishing, 123
Puget Sound Power and Light, 98, 99
Pullman Company, 166
Punta Corporation, 81
Purification Sciences, Inc., 114

Quaker Oats, 153
Quality Court, 120

Railroads, 79, 80–82, 139; bonds, 5–6, 9ff., 167
Ramada Inns, 17, 18, 120
Rayco, 111
Rayonier, Inc., 209
Raytheon TV, 169
RCA, 9, 21, 123, 154, 155, 166, 181, 210
Real estate, 136–46, 176 (*See also* Hotels; Motels; etc.); bonds, 10, 167
Real Estate Investment Trust of America, 143
Realty, Inc., Trust, 144
Realty Equities, 176
Recognition Equipment, 134
Republic National Life, 47, 75, 178
Research-Cottrell, Inc., 113, 114, 198, 214
Research and development, 171
Restaurant Associates, 91
Restaurants, 91
Revlon, Inc., 48, 54, 158, 177, 210
Retailing, 152–53
Reynolds, R. J., Industries, 220
Reynolds Metals, 105, 106
Reynolds Tobacco, 179
Richmond Corporation, 75
Rite-Aid, 94
RKO, warrants of, 33–34
Rochester Gas and Electric, 99
Rochester Telephone, 102
Roosevelt Raceway, 123, 173
Ross, Will, Inc., 214
Royal Crown Cola, 179
Royal Dutch, 149
Royal Inns, 18, 120, 140
Rusco, 106
Rutland Railroad, 81

Safeway (supermarkets), 153
St. Johnsbury Trucking, 85
St. Joseph Paper, 217
St. Louis San Francisco Railway, 79
St. Paul Companies, The, 77
St. Regis Paper, 139, 157
Santa Anita, 123
Santa Fe International, 158
Sara Lee, 153

Sarex, 18, 155–56
Savin Business Machines, 135
Savings and loan associations, 69–70
Schaefer, F. & M., 57
Scudder, Stevens and Clark, 161
Seaboard Coastline Railroad, 81, 176
Searle, G. D., 157, 169, 188
Sears Roebuck, 77, 152, 177, 209–10, 232
Securities and Exchange Commission (SEC), 51, 52, 57, 96, 125
Security and protection services, 88–89
Service industries, 86–94, 220
Serv-Quick, 129
Sewage disposal, 113
Shell Oil, 148
Sheller-Globe, 111
Sheraton motels, 119–20, 140
Silver, 107–8, 109
Simon & Schuster, 123
Skee-Horse snowmobiles, 124
Skeeter snowmobiles, 124
Slick Corporation, 113
Smith, Kline and French, 157
Snelling and Snelling, 88
Solon Industries, 18
Sony cartridges and cassettes, 155
Southeastern Mortgage Investors, 145
Southern Extrusion, 106
Southern Materials, 210
Southern Pacific Co., 79, 81, 139
Southern Railway, 79, 81, 220
Southwestern Bell, 11
Specialists, 38–40
Speculation, 183–95
Sperry Rand, 134
Sports, 123, 124
Standard Brands, 153, 181
Standard Oil, and real estate, 139
Standard Oil of California, 232
Standard Oil of New Jersey, 8, 148, 166, 172, 176, 232
Standard Oil of Ohio, 148, 197, 210
Standard and Poor's, 160
Standard and Poor's Average, 221
Standard Prudential Corporation, 69
Steel, 104–5
Sterling National Bank of N.Y., 69
Stock exchange firms. *See* Brokers, brokerage
Stock markets, 37–53
Stocks, 3–4, 9ff. (*See also* Growth stocks; Preferred stocks; etc.; Warrants; specific companies); changing investment patterns; guidelines for 1970's, 166–74; diversification, 178–81; letting someone else make investments, 159–65; for long-term investors, 175–82; new issues, 54–65; 1969's big gainers and losers and 50 promising stocks for 1970, 196–217; speculation, 183–95; when to sell, 181–82
Storer (broadcasting company), 154
Stores, 152–53
Stouffer's, 91, 153
Success Motivation Institute, Inc., 155, 156, 185, 216
Superior Oil, 139, 149, 212
Swift & Company, 153, 232
Sybron Corporation, 114
Symbols, trading, 40, 232
Systems Engineering Laboratories, 135

Taft Broadcasting, 123
Tasminex, 185
TCO Industries, 120
Technicolor, 166
Telephone companies, 95, 96, 101–3
Television (TV), 123, 154–55, 169; and motion pictures, 156
Templeton, Dubbrow and Vance, 161
Tenneco, Inc., 11, 101, 210
Texaco, 148, 232
Texas Gulf Sulphur, 106
Texas International Airlines, 121
Texas and Pacific Land Trust, 139
Texas Utilities, 98
Texmont, 109
Thompson, J. Walter, 90
Tishman, 140
Tobaco, 179
Toronto Stock Exchange, 43
Trade-Wind Camper, 124
Trans Caribbean, 205
Trans World Airlines, 80
Transamerica, 75
Transcontinental Gas Pipeline, 101
Transportation, 79–85
Travelers Continental Corp., 77
Travelers Life Insurance Co., 75
Travelers Corporation, 75
TraveLodge, 17, 19, 120, 140, 178; franchises, 130
Tri-Continental Corporation, 28, 162
Trucking companies, 79, 80, 84–85
Trusts, 169–70 (*See also* Investment trusts; Real estate; etc.); and portfolio management, 160–61
Tucson Gas & Electric, 47
Twentieth Century-Fox, 156

UAL, Inc., 80
Underwriting, 58–62, 77
Union Camp, and real estate, 139
Union Carbide, 172, 181, 232
Union Electric, 99
Union Pacific Corporation, 79, 81, 139, 166
Union Trust, 144
United Air Lines, Inc., 80, 82, 83
United Aircraft, 232
United Convalescent Hospital, 93
United Keno, 108
United Service Life, 75
United States Freight Company, 80
United States Life Insurance Co., 75
United States Steel, 9, 104, 105, 166, 176, 179, 181
United States Trust Company, 160–61
United Utilities, 102
Univac, 134
Universal Oil Products, 111
University Computing, 134
Upjohn Corp., 57, 157, 220
Uris Buildings, 140
U.S. Life Holding Co., 75, 210–12
U.S. Realty Investments, 143
U.S. Steel, 232
Utilities, 95–103, 166, 220

Value Line, 160
Vancouver Stock Exchange, 43
Vanguard Studios, 125
Variety stores, 153
Vernitron, 132
Vestart, Inc., 125, 129
Victor Comptometer, 135
Virginia Electric & Power, 98

Wackenhut Corporation, 89
Wallace Business Forms, 134
Wang Laboratories, 132
Warrants, 6–7, 28–36, 41–42
Water companies, 95, 96, 103
Water pollution, 113–15
Webb, Del E., Corp., 122, 139, 141
Weight Watchers International, 129
Wells Fargo Bank, 67
Wells Fargo Corporation, 177
Wells Management, 88
West Coast Transmission, 101, 214
West Deep Levels, 108
West DreiFontein, 109
Western Mortgage Investors, 145
Western Nuclear, 216–17
Westinghouse Electric, 155, 232
Wetson's Corp., 91, 129, 154
Weyerhaeuser, 13, 139
Wheelabrator, 113
White Shield Oil and Gas of Canada, 18, 33, 54–55, 149, 217
White Spot Restaurants, 208
Wilson Sporting Goods, 123
Winn-Dixie, 153
Winnebago Industries, 17, 18, 45, 177
Winter Park Telephone, 102
Wisconsin Power and Light, 47
Woolworth, 153, 166, 172, 232

Xerox, 135, 169, 172, 176, 178, 179–80, 181

Yonkers Raceway, 123

Zale (store), 153
Zenith Radio, 155, 169, 177, 180–81
Zinc, 107
Zurn Industries, 114

A BRAND NEW LINE OF BOOKS

Reflecting Contemporary Thought and Attitudes

Lancer Contempora Books

#36103 HUSBANDS
by Maida Krist $1.75

#34100 WHY MOST INVESTORS ARE MOSTLY WRONG MOST OF THE TIME
by William X. Scheinman $1.50

#36100 THE PRIME OF LIFE
by Simone de Beauvoir $1.75

#36101 AN EYE FOR THE DRAGON
by Dennis Bloodworth $1.75

#36102 THE LIBERATED COUPLE
by Susan Cohen $1.75

#33002 WHAT THE SEERS PREDICT FOR 1972
by Brad Stieger and Warren Smith $1.25

#37001 THE COMPLETE BOOK OF DECOUPAGE
by Frances S. Wing $1.95

#33003 NUMEROLOGY AND YOU
by David Greenacre $1.25

If these books are not available at your local newsstand, send price indicated plus 10¢ to cover mailing costs. On orders of four or more books, Lancer will pay postage. If you wish a complete free catalogue, write to LANCER BOOKS, INC., 1560 Broadway, New York, N.Y. 10036

the stock market is no place for the ignorant!

Do you have big plans for the future? Dreams that can come true with just a little bit of luck? Do you believe in the old saying that it takes money to make money . . . and now you've got some to invest? Then this book is for you!

Ira U. Cobleigh points out the common-sense way towards profitable investing in the years ahead . . . and shows you how to avoid the pitfalls waiting for the too-anxious chaser of a will-o'-the-wisp fortune! You can make money in stocks . . . but what goes up can also come down. This book shows you how to maximize your profits and minimize your losses . . . the sure way to a happy tomorrow!

A LANCER CONTEMPORA BOOK—COMPLETE AND UNABRIDGED

Cover printed in the U.S.A.